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2 Major Parties Lose Ground In Austria as Rightists Gain

By John Tagliabue
New York Times Service

VIENNA — Austria's two largest parties, the governing Socialist Party and the opposition Austrian People's Party, suffered heavy losses in national elections Sunday as a wave of protest voters swung to the rightist Freedom Party and the environmentalist Greens.

The Socialist Party of Chancellor Franz Vranitzky, despite heavy losses in working class areas of Vienna and Styria, retained its position as the strongest parliamentary group, making it likely that his party would enter a grand coalition with the conservative People's Party.

But the real winner appeared to be Jörg Haider, a rightist nationalist whose Freedom Party almost doubled its share of the popular vote.

Releasing preliminary results, Interior Minister Karl Blecha said that the Freedom Party won 9.7 percent of the vote, up from 4.9 percent in the last election in 1983. Under complex voting statutes, the party will have 18 deputies in the 183-seat Nationalrat, a gain of six.

The Socialists suffered the heaviest loss, dropping to 43.3 percent of the vote from 47.6 percent, or 80 seats, a loss of 10; the People's Party went to 41.2 percent from 43.2 percent, or 76 seats, a loss of 5; and the Greens received 4.6 percent, according them 9 seats.

It was the first time the Greens have sent deputies to parliament and the first time a fourth party has entered the legislature since the Communist Party was voted out in 1959.

The election came at a time of economic fragility, because of sluggish growth and huge losses in nationalized industries, and an ill-defined national unease over the consequences of the election in June of Kurt Waldheim as president amid allegations that he concealed his role in Hitler's army.

The contest began in September, when Mr. Vranitzky abruptly ended a three-year partnership with the Freedom Party, protesting the rightward lurch that he said Mr. Haider's election as party leader represented.

Mr. Vranitzky, a former banker and finance minister who became chancellor in June, persuaded his party to espouse budget austerity, tax reform and privatization of state-owned industries.

He also pitted his popularity against the blandness of his chief opponent, Alois Mock, leader of the People's Party.

LATE NEWS

Barclays to Sell Pretoria Bank

JOHANNESBURG (Reuters) — Barclays Bank of Britain, which has been under pressure from anti-apartheid groups, is selling its interest in South Africa to the Anglo American Mining Corp., informed sources said Sunday evening. They said the sale would be announced here Monday.

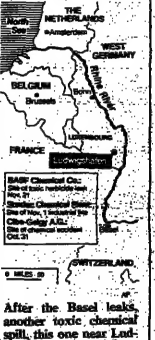
The British bank owns 40.4 percent of Barclays Bank South Africa, the country's second largest commercial bank. Anglo American is the second largest shareholder in Barclays Bank South Africa with 25 percent of the stock.

Iraqi Jets Raid Iran

BAHRAIN (Reuters) — Both sides in the Gulf war reported heavy Iraqi air raids Sunday on towns 300 miles (480 kilometers) southwest of Tehran, hours after Iran fired a ground-to-ground missile at Baghdad.

SPECIAL TODAY

A GLOBAL REVOLUTION
Along with financial deregulation has come an information services revolution, leading to an integrated global market.
The Euromarkets, Pages 9-12.



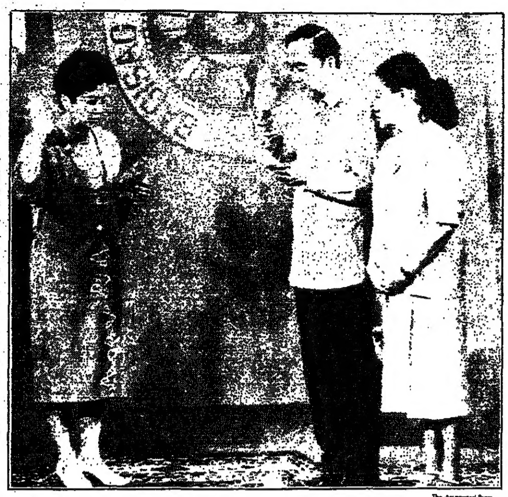
AP

After the Basel leaks, another toxic chemical spill, this one near Ludwigshafen, has added to Rhine pollution. Page 7.

GENERAL NEWS
■ Conversation analysis explores what really happens when people talk. Page 3.

SPORTS
■ Michigan edged Ohio State and will go to the Rose Bowl; Oklahoma gained an Orange Bowl spot. Page 19.

BUSINESS/FINANCE
■ The SEC defended its action in allowing Ivan Boesky's huge stock sell-off before his insider-trading settlement. Page 13.



The Associated Press
Rafael M. Ileto, with his wife, being sworn in as defense minister by Corazon Aquino.

Aquino Replaces Enrile in Cabinet As Ramos Moves To Prevent Coup

By Seth Mydans
New York Times Service

MANILA — President Corazon C. Aquino accepted the resignation Sunday of her rebellious defense minister, Juan Ponce Enrile, and appointed his deputy, Rafael M. Ileto, to replace him.

In a televised address that followed threats of a military move by troops loyal to Mr. Enrile, Mrs. Aquino said she had asked for the resignations of all her cabinet ministers and that she had accepted that of Mr. Enrile.

The new Philippine defense minister is expected to exert a calming influence. Page 6.

Mrs. Aquino acted after dissident soldiers supporting Mr. Enrile threatened to take over the National Assembly building and declare a rebel government.

They called off their plan after General Fidel V. Ramos, the chief of staff, ordered military units not to obey orders from the Defense Ministry, military sources said.

"General Ramos has taken preventive measures against the recklessness of some elements in the military," Mrs. Aquino said in her address. "I hereby give notice to all of those who may be inclined to exploit the present situation that the sternest measures will be taken against them if they try."

Her address followed a 25-minute meeting with Mr. Enrile, whose supporters have demanded the dismissal of certain cabinet members and a tougher stand on the Communist insurgency.

Sources close to Mr. Enrile have said he was also demanding that Mrs. Aquino reconvene the National Assembly, revert to the 1973 constitution that she abolished in March and call for new presidential elections.

In her address Sunday, Mrs. Aquino said: "I have directed all cabinet members to give me their resignations. Those who do not do so I shall nonetheless consider to have resigned."

"This will give the government a chance to start all over again," she said.

Mr. Ileto, a retired armed forces deputy chief of staff, is a highly respected officer who is on good terms with both the president and Mr. Enrile. After her address, Mrs. Aquino swore in Mr. Ileto on television.

Mrs. Aquino convened an emergency cabinet meeting at 8 A.M., sources at the presidential palace said. General Ramos was reported to have attended the meeting, which continued into the afternoon.

Mr. Enrile and Vice President Salvador H. Laurel, who has supported some of Mr. Enrile's positions, were said to have been absent. After the cabinet meeting, Mrs. Aquino met with Mr. Enrile.

"Things have been temporarily

See MANILA, Page 6

Reuters
Juan Ponce Enrile after his removal Sunday from President Aquino's cabinet.

India to Seek $3 Billion Over Bhopal

By Sanjoy Hazarika
New York Times Service

NEW DELHI — The Indian government will seek a minimum of $3 billion from Union Carbide Corp. as compensation for the gas leak at the U.S. company's plant that killed more than 2,000 people.

The government gave the amount Saturday in a statement before a court in Bhopal, the central Indian city that was enveloped Dec. 3, 1984, by toxic gas that escaped from a Union Carbide subsidiary's plant.

It was the first time the government had specified a compensation amount in nearly a year and a half of litigation here and in the United States.

In its statement, the government said it was likely that the amount of damages would exceed $3 billion "if the case is tried to judgment."

It said it had rejected all offers by the corporation to settle the issue out of court because these were "woefully inadequate to fully and fairly satisfy all the claims" of the victims.

The government's statement was in response to an affidavit filed by Union Carbide on Nov. 16 that blamed its Indian subsidiary and the national and Madhya Pradesh state governments for the disaster, while denying liability for itself.

The company also charged that former employees and a supervisor were covering up possible sabotage.

In its response, the government said the company had no right to seek to implicate the state and central governments in the disaster.

In Danbury, Connecticut, a Union Carbide spokesman, Kurt Mazurosky, read a company statement that said, "The $3 billion amount is without foundation and totally inconsistent with the government of India's previous demands."

An official involved in India's legal preparations suggested that New Delhi had been stung into filing for damages at this stage by the company's affidavit.

"The numbers involved are mind-boggling, and we are very clear that the $3 billion is the bare minimum level of compensation," said the official, who declined to be identified. "Any settlement must be in excess of that."

In another affidavit last week Union Carbide declared that the Indian government was not competent to represent the Bhopal victims, and it accused official investigators of tampering with evidence by moving the storage tank that leaked.

New Delhi says the multinational company had overriding responsibility for what it calls design flaws that led to the chemical leak.

It claims that the sabotage theory is an afterthought by Union Carbide aimed at reducing its liability.

The government has also sought a court order banning the corporation from selling any of its assets or properties. The Bhopal court ordered a temporary injunction last week against such sales.

Reagan Reported Pressed to Remove 3 Key Advisers

Egypt, Jordan Criticize U.S.

Reuters

CAIRO — President Hosni Mubarak of Egypt joined King Hussein of Jordan on Sunday in saying that U.S. credibility in the Middle East was at stake because Washington had shipped arms to Iran.

In his first public reaction to the once secret U.S.-Iran arms deal, Mr. Mubarak said after talks with Hussein that he had been astonished at the reports.

Mr. Mubarak said that he had sent a message to President Ronald Reagan "asking him, and I am still asking the United States, to do something in order not to lose its credibility in the Arab world."

Mr. Mubarak added that "I hope something will be done in the near future so the United States will not lose its credibility, because I am afraid it is starting to deteriorate."

Hussein, standing beside Mr. Mubarak, said that "what happened will not help end the war" between Iran and Iraq "but will escalate it to an extent that it will threaten not only Iraq but the entire Arab world." Egypt and Jordan support Iraq in the Gulf conflict.

Jordanian sources said that Hussein, who plans to visit other Arab capitals, is seeking a unified Arab position on the war before an Islamic conference in Kuwait in January. The sources said that the king also would visit Italy, France, Britain and the United States.

■ Moderate Arabs Fear Iran

Earlier, John Kifner of The New York Times reported from Damascus:

Among the centrist Arab na-

See ARABS, Page 2

UPI
Drew Lewis

Shultz, Regan and Poindexter Are Targets

By David Hoffman and Lou Cannon
Washington Post Service

WASHINGTON — A group of longtime California supporters of President Ronald Reagan is seeking a cabinet and White House staff shake-up in the aftermath of the administration's secret arms dealings with Iran, according to sources.

The advisers were described as responding to what one of them called "the worst hour in the president's political career."

The sources said Saturday that the group of influential friends was working with the encouragement of Nancy Reagan, who has privately been highly critical of the White House chief of staff, Donald T. Regan, and Secretary of State George P. Shultz.

The sources said the goal of the group, which includes Californians inside and outside the administration, was to replace Mr. Shultz, Mr. Regan and the national security adviser, Vice Admiral John M. Poindexter.

The group is pushing for Defense Secretary Caspar W. Weinberger to replace Mr. Shultz and for Drew Lewis, the former transportation secretary who is president of Union Pacific Corp., to replace Mr. Regan.

Sources said several members of the group, including Attorney General Edwin Meese 3d and a former secretary of the interior, William P. Clark, have contacted Mr. Lewis to ask if he would be willing to become chief of staff.

Jeane J. Kirkpatrick, a former chief delegate to the United Nations, has been suggested by some members of the group as a possible replacement for Admiral Poindexter.

One source said it was not certain whether the group would have any success persuading the president to make staff changes, which he has been reluctant to do in the past.

But the source said the effort was highly significant as an indication

See STAFF, Page 6

Saudis Said to Send Oil to Iran via U.S. Shippers

By Jeff Gerth
New York Times Service

WASHINGTON — Within the last few months, large shipments of fuel refined in Saudi Arabia have been transported by commercial American shippers across the Gulf to Iran, which urgently needs the fuel for its war with Iraq, according to oil traders and oil experts.

These movements, which experts doubted would have occurred without the approval of the various governments, illustrate how oil has become a key issue in the secret diplomacy with Iran.

According to administration officials and sources close to the Saudis, Saudi Arabia was both aware of the American talks with Iran and engaged simultaneously in its own rapprochement with Iran.

An administration official familiar with the discussions between the United States and Iran said the new cooperation between the Gulf countries was "not a coincidence."

The Saudi overtures, according to American officials and Saudi sources, stemmed from a longstanding fear that Iran might export Islamic fundamentalism across the Gulf. Saudi Arabia has also supported Iraq and its allies financially.

Oil experts said that although there had been previous shipments to Iran from Saudi Arabia, the recent shipments were much larger and also, for the first time, involved American traders.

The identity of the traders is not known. These sources also said it was significant that some of the crude oil being refined in Saudi Arabia was coming from Iran. While the Saudi Arabians were permitting these shipments, they announced last month that they were temporarily shutting a pipeline used by Iraq to export oil.

Iran has a shortage of refined petroleum products because of extensive damage inflicted by Iraqi air attacks on its Kharg Island refinery.

A result of the Saudi-Iranian discussions, according to American and Saudi sources, has been their recent alliance within the Organization of Petroleum Exporting Countries to limit production and support the price of oil at around $18 a barrel. That process, in turn, produced the dismissal of the Saudi oil minister, Ahmed Zaki Yamani, a driving force behind OPEC policy since the early 1970s, these experts say.

Private and government oil experts say the Saudi-Iranian agreement on oil-pricing stability coincides, at least temporarily, with United States interests.

John H. Lichtblau, executive di-

See OIL, Page 6

RELATED ARTICLES

■ Iraq was deceived by the United States, its ambassador to Washington said. Page 2.

■ James Reston and George F. Will argue that President Ronald Reagan needs a change of top aides. Opinion, Pages 4-5.

■ Libya gave nerve gas warheads to Iran and Syria, it was reported in Britain. Page 2.

A Deepening Stain on the Reagan Record, Doubts About the Final 2 Years

By Bernard Gwertzman
New York Times Service

NEWS ANALYSIS

WASHINGTON — At a dinner for Senate Republicans the other night, President Ronald Reagan cracked a joke. "I'm glad to be out of Iran," he said.

But it is not proving that easy for Mr. Reagan to put Iran behind him. Despite a nationally broadcast speech Nov. 13 and a news conference Wednesday, he has seemed unable to convince politicians or the public that secretly selling arms to Iran, which apparently led to the release of American hostages in Lebanon, was wise or correct.

Indignation and amazement over the policy have threatened to make it the most serious blot on Mr. Reagan's record during two terms in office. And the stain keeps spreading.

The disclosures about the sale of $12 million worth of weapons to Iran raise issues beyond the question of whether such transactions were a mistake when there was a well-established policy against providing arms to Iran, as well as an administration effort to persuade other countries to refrain from doing so.

Still, the president stuck to his decision. "As Mr. Lincoln said of another presidential decision," Mr. Reagan declared, "if it turns out right, the criticism will not matter. If it turns out wrong, 10 angels swearing I was right will make no difference."

The president also said, "I understand this decision is deeply controversial, and some profoundly disagree with what was done. Even some who support our secret initiative believe it was a mistake to send any weapons to Iran. I understand and I respect those views. But I deeply believe in the correctness of my decision."

The tension and contentiousness over Iran are raising issues that cut close to the heart of this administration. Questions are being asked about its ability to do more than run a caretaker government for the remaining two years of Mr. Reagan's term, especially with the Democrats taking control of the Senate in January.

There was also doubt about the role of Secretary of State George P. Shultz, who had always been seen as Mr. Reagan's strongest adviser on foreign affairs. Mr. Shultz was reported to have been opposed to the Iran arms sales, but also either isolated from or indifferent to what was happening in the operation. After raising the possibility of resignation, Mr. Shultz seemed satisfied that Mr. Reagan, after first defending his policy as "correct," announced that no more arms would be sold to Iran.

But behind the scenes Mr. Shultz was also trying to set guidelines that would re-establish his primacy in foreign affairs and restore his reputation as a man whose word can be taken as a reflection of White House policy. He had to admit on Nov. 16 that he opposed the arms sales but was unable to say if he spoke for the administration. This was an indignity felt deeply by many in Washington's foreign policy establishment.

There was considerable speculation that a shake-up was inevitable in the foreign policy apparatus. If Mr. Shultz remained, there was some doubt whether Vice Admiral John M. Poindexter, the national security adviser, could also stay. There is disagreement over whether Admiral Poindexter kept the operational details secret from Mr. Shultz, which might make it difficult for them to cooperate.

So far, despite his reputation as the Great Communicator, the president appears to have misjudged the impact of his policy, which is being attacked as evidence of hypocrisy at very high levels. His critics, and some supporters, believe the president compounded his problem in two exceptionally poor public appearances that left many questions unanswered.

Quietly, Pretoria Again Relocates Blacks

By Alan Cowell
New York Times Service

KWANOBUHLE, South Africa — South Africa's white rulers seem to have revived a policy of removing blacks from one place to another, despite earlier promises that the practice had been stopped, according to civil-rights activists and those affected by the policy.

Some activists say the authorities have used the state of emergency, imposed on June 12, not only to fulfill its avowed goal of combating unrest and violence but also to enforce the uprooting of blacks not known for violent protest by detaining black community leaders opposed to removals.

In at least five separate areas in different parts of the country, tens of thousands of blacks have been either moved to new, unchosen places or face the threat of such action, contrary to a government pledge last year that forced removals would cease.

The results of the action are evident in the bleakness of this place.

The small, sad stories seem to add up to a wider design intended to clear up the anomalies of apartheid.

On Tuesday, an insistent wind coaxed brown dust from dry lands to cloak the homes of people late George Mthobi, a man whose story of uprootings and choices denied seemed a symbol of the plight of many blacks in this divided land.

Mr. Mthobi, 58, a pensioner, said he had worked on eastern Cape Province farms for much of his life. But in 1982, drought took his job away, and he moved to the squatter camp outside Uitenhage called Langa.

There, he settled in a shack made of tin, close by segregated white areas, to work as a handyman. Earlier this year, he said, the police and other officials began to tour the place with bullhorns, saying the residents would have to move. As did others, when the leaders of resistance groups opposing the move were detained, he said, he pulled down his house and loaded it onto a truck supplied by the government to make the latest in a series of moves he had not chosen.

"If I could have stayed," he said in an interview outside his home, "I would have. But I could not, so I am here."

The newest wave of removals, which has received little publicity, affects Langa and at least four other places: the squatter camp of Lawaaikamp outside the Cape Province town of George, which is President Pieter W. Botha's parliamentary constituency; the Transvaal township of Oukasie, near the town of Brits, north of Pretoria; Duncan Village township near East London; and a place called the Red Location, a tumbledown settlement of homes built decades ago for British troops within what is now the black township of New Brighton, outside Port Elizabeth.

Church groups have calculated that over the last 25 years 3.5 mil-

See MOVE, Page 6

Wendy Schwegmann/Reuters
Children playing recently at the township of Oukasie, north of Pretoria, one of the areas from which blacks are being relocated by the government or are threatened with relocation.

U.S. Deceived Iraq on Arms Shipments, Envoy Says

By David K. Shipler
New York Times Service

WASHINGTON — The State Department apparently misled the Iraqi government for years about Israel's arms shipments to Iran, according to accounts from present and former U.S. officials and Iraq's ambassador in Washington, Nizar Hamdoon.

Mr. Hamdoon said that his government repeatedly complained to the Reagan administration during recent years that Israel was sending military equipment to Iran.

But instead of acknowledging that fact, Mr. Hamdoon said in an interview Friday, American officials simply relayed Israel's denials to Iraq and said the United States had no evidence of such shipments.

Iraq has been at war with Iran since 1980. State Department officials have said that they knew about Israeli shipments for at least five years before President Ronald Reagan authorized Israeli weapons deliveries as a way of reopening ties with Iran.

"We knew about that," Mr. Hamdoon said of the Israeli shipments, "and we are telling the U.S. government for the last few years about it. They didn't deny this. They say whenever they talk to the Israelis about it they simply deny it."

"At the beginning," he said, "we thought the Americans would exert some pressure with the Israelis because, after all, it is in the American interest that the Israelis should abide by the policy."

"So this is why we are telling the Americans and the Americans come back and say, 'We have told the Israelis, we have asked them, they have denied that there are any transactions with Iran.'

"Therefore, they say that they don't have any evidence that Israel is shipping."

A State Department spokesman declined to comment, saying, "We don't get into our diplomatic exchanges."

The Iraqis have questioned State Department officials closely about U.S. arms sales to Iran and have expressed concern, but have not filed a formal protest. The ambassador said he was still seeking an explanation of what had happened.

Mr. Hamdoon complained that the weapons sales fit with a stated Israeli goal of prolonging the war by giving Ayatollah Ruhollah Khomeini and the Iranian government a sense of confidence.

Israeli officials have often spoken privately of the desirability of draining both sides in endless combat, although some Israelis have recently begun to see virtue in ending the conflict without a victory by either side.

Mr. Hamdoon said the weapons sales struck at the heart of Iraq's purpose in re-establishing full diplomatic relations with the United States in 1985. That purpose, he said, was to press Washington to use its diplomatic muscle to dissuade Western countries from selling weapons to Iran and buying Iranian oil.

Mr. Hamdoon said the long-run implications for Iraqi-American relations were uncertain.

"The future depends on what kind of steps the United States government is going to take to recover its credibility on this major issue for us and for others in the Middle East," he said. "We will react to American policy as it develops."

■ **Conflicting Events**

Walter Pincus and David B. Ottaway of The Washington Post reported from Washington:

The national security adviser, Vice Admiral John M. Poindexter, assured a British diplomat on May 28 that the United States stood firmly by its policy of not making deals for hostages, according to U.S. and European sources.

On the same day, Admiral Poindexter's predecessor, Robert C. McFarlane, landed in Tehran in a plane carrying U.S. weapons, expecting that all U.S. hostages in Lebanon were about to be released.

The British were particularly concerned that Washington adhere to its professed policy of refusing to make concessions to hostage-takers, informed sources said.

Prime Minister Margaret Thatcher not only had refused to bargain for the release of two Britons held by pro-Libyan forces in Lebanon, but she had ignored the danger to the hostages and, in a show of solidarity with President Reagan, allowed U.S. planes based in Britain to be used in the April 15 bombing of Tripoli and Benghazi.

In retaliation for those raids, the two Britons and one American were executed by their captors. Mrs. Thatcher has been criticized for her position.

Admiral Poindexter met May 28 with Sir Antony A. Acland, then the permanent undersecretary of the British Foreign Office and now the British ambassador in Washington.

Admiral Poindexter gave Sir Antony no hint that Mr. McFarlane was then carrying U.S. arms to Tehran, but said the administration was considering various options for getting the hostages out, according to these sources.

A spokesman for Admiral Poindexter said Saturday that the admiral could not "pin down" the May 28 conversation, but added that Admiral Poindexter had often discussed Iran, the U.S. arms embargo and "the nonnegotiability" of hostages with British officials.

Iran, Syria Said to Get Libyan Nerve Gas Warhead

Reuters

LONDON — A British newspaper said Sunday that Libya had provided Iran and Syria with nerve-gas warheads for Soviet-built missiles and that this raised the possibility of potentially lethal strikes against Israeli cities by Syria.

The Sunday Telegraph, quoting Western intelligence sources, said the warheads, which can be fitted to Scud-B missiles, had been delivered in the past few weeks.

The paper said Iran and Syria had identical supplies of the surface-to-surface missiles.

"The Scud-B chemical warheads could kill every human within an area of 25 square miles and render a city uninhabitable for about 24 hours after the attack, depending on weather conditions," it said.

Scud-B, also known as SS-1, is a vehicle-launched missile with a range of more than 180 miles (290 kilometers).

British intelligence experts traced the source of the nerve-gas warheads to the Soviet Union, the paper reported.

"The possession by Syria of a long-range chemical warhead capability will give it a huge advantage over Israel in any future conflict," it said.

The paper described Syrian possession of the warhead as "potentially the most dangerous military development in the Middle East in the last 20 years."

Libya can not use the weapons against Israel because the distance between the two countries is too great.

In the past, Iran has hit the Iraqi capital, Baghdad, with conventionally armed Scud missiles, which Iraq says Tehran obtained from Syria or Libya.

The newspaper also reported that the British government had authorized the sale to Iran of several planeloads of spare tank parts.

Quoting government sources, the paper said the parts were for Chieftain tanks, which Britain supplied to Iran before the 1979 revolution.

But the paper said other consignments, which were being sent from regional British airports to avoid attracting attention, included cases of shells and other ammunition not carrying export licenses approved by the government.

A Foreign Office spokesman would not comment on the report, saying only, "We will sell nothing to Iran or Iraq which will exacerbate or prolong the conflict."

The allegations follow an announcement last week by Land-Rover that it was negotiating the sale of 3,000 vehicles worth £27 million ($38 million) to Iran.

Land-Rover has denied the deal was being made secretly. The Foreign Office spokesman said he did not know whether an export license for the vehicles had been sought.

Kohl Shelves Amnesty Plan for State's Witnesses

The Associated Press

MUNICH — Chancellor Helmut Kohl will stop pressing for passage of a law this year that would grant amnesty to terrorists who turned state's witness.

Mr. Kohl, a Christian Democrat, made the statement Saturday after the junior partner in his government, the Free Democrats, opposed him by voting at a party congress in Mainz on Friday to dilute the proposal.

The argument is one of the most public between the two parties since they formed a governing coalition in October 1982.

The conservative Christian Democrats favor a provision that would allow prosecutors to grant a complete amnesty to arrested terrorists if they agreed to testify against other terrorists.

The liberal Free Democrats said the law should provide only for reducing charges against a state's witness.

Mr. Kohl said the law as suggested by the Free Democrats was unacceptable.

He said he would put it aside while seeking to pass other provisions in an anti-terrorist package before the end of the year.

"We must pass this package, but without the state's witness provision for now," Mr. Kohl said at a meeting in Munich of the Christian Social Union, the Bavarian arm of the Christian Democrats. "On that point, half a solution is no solution."

While Mr. Kohl avoided criticizing the Free Democrats, Franz Josef Strauss, Bavaria's premier and the leader of the Christian Social Union, charged that their vote was "typical Free Democrat eyewash."

The Christian Democrats made the state's witness proposal after the murder Oct. 10 of Gerold von Braunmühl, a senior official at the Foreign Ministry.

The Red Army Faction, a terrorist group, claimed responsibility for the death.

The Free Democratic leadership had initially agreed to the state's witness proposal.

But the party has recently been seeking to establish a separate identity from the Christian Democrats in an attempt to win more votes in federal elections Jan. 25.

The Associated Press

Franz Josef Strauss, left, and Helmut Kohl conferring at a CSU meeting on Saturday.

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Romanians Vote on Cut In Military

By Henry Kamm
New York Times Service

BUCHAREST — Romanians from age 14 up voted Sunday in a national referendum on Nicolae Ceausescu's decision to make significant cuts in military spending.

At a mass rally here Friday evening, Mr. Ceausescu, the Romanian leader, announced that immediately after the referendum, Romania would reduce its armed forces by 10,000 men and their weapons by 250 tanks and armored vehicles, 130 cannon and grenade launchers, and 26 combat planes and helicopters.

Military spending next year will be curtailed by $130 million, Mr. Ceausescu pledged.

Mr. Ceausescu said the steps were intended to persuade the leaders of the world "to act to stop the irrational arms race."

"I have the firm conviction that our whole nation will be unanimous in saying a firm 'yes,'" Mr. Ceausescu said.

He appeared to have assured this result by requiring voters to fill in their names in addition to their "yes" or "no" on the ballots.

The initiative does not promise to materially alter the balance of forces between the North Atlantic Treaty Organization and the Warsaw Pact. Romania is the least active member of the Soviet-dominated alliance and borders only on Communist countries. It rarely takes part in Warsaw Pact exercises and allows none to be staged on its territory.

Recent Western estimates put the strength of Romanian forces at about 200,000 men, with 1,700 tanks and 290 aircraft. The announced military budget this year is about $12 billion.

Western commentators said the significance of the gesture and the referendum, for which they knew of no precedent in a Communist nation, was its role in reinforcing Romania's image of relative independence within the Soviet camp.

It also represented, they said, an implicit promise to the nation with the lowest standard of living in the Eastern bloc that greater efforts would be made to meet civilian needs at the expense of military spending.

The sustained propaganda offensive for the referendum, which reached its climax at the rally Friday, had been remarkable for its evenhandedness. It had not sought to blame the arms race on the United States, and only in passing did Mr. Ceausescu endorse the proposals made by the Soviet Union at the Iceland arms-control talks.

Rather, Mr. Ceausescu sought to make himself a spokesman for Europe in addressing both the United States and the Soviet Union.

He said he had reduced the normal voting age of 18 for the referendum to allow those who will live in the world of the future a hand in shaping it. He called the referendum "a vigorous expression of the deeply democratic character of our society."

In the eyes of Westerners and some Romanians, the referendum has served as a further step in a campaign to glorify Mr. Ceausescu, 68, and his wife, Elena, the second most powerful person in this tightly ruled country.

28 Rescued Off Irish Coast

The Associated Press

CORK, Ireland — Two British Air Force helicopters rescued the 28-member crew of a disabled iron-ore carrier, the Kowloon Bridge, from heavy seas Sunday 20 miles (32 kilometers) off Ireland's southern coast, according to a maritime official in Swansea, South Wales.

ARABS: *U.S. Criticized*

(Continued from Page 1)

tions, particularly Jordan, the Gulf Emirates, Saudi Arabia and Egypt, the Iran-Iraq war has increasingly become a matter of primary concern because of fear that an Iranian breakthrough could touch off a violent Islamic fundamentalist revival that could topple their governments and destabilize the region.

The U.S. shipments of arms reportedly included badly needed spare parts for Iran's few remaining U.S.-made F-14 and F-4 fighter planes, and TOW missiles. The missiles would be extremely useful against the tanks and other armor that form the backbone of the Iraqi military.

Middle East sources said the removal of whatever moral embargo the Americans had managed to impose on arm sales to Iran meant that the market was now wide open to private and government arms dealers. Other countries that produce armaments might be expected to line up to sell weapons to Iran.

"The arms shipments will certainly affect the credibility of the United States," said Taher al-Masri, the Jordanian foreign minister. "Such dealings will do tremendous harm to Iraq and the outcome of the war. Really, it's very dangerous."

■ **Knesset Members Upset**

Some Israeli legislators, following reports that their country had made U.S.-approved arms shipments to Iran, demanded Sunday that they be given a greater role in overseeing government policy, The Associated Press reported from Tel Aviv.

Abba Eban, chairman of the Foreign Affairs and Security Committee of the Knesset, or parliament, said that if reports of arms deal were true, "no doubt there was a mistake in calculations of international proportions."

WORLD BRIEFS

Bomb Explodes in Central Kabul

ISLAMABAD, Pakistan (AP) — A bomb exploded in Kabul, Afghanistan, over the weekend in what may have been an assassination attempt against Major General Najibullah, the Afghan leader, sources said Sunday.

The Western diplomats, speaking on condition they not be identified, said a large bomb went off Saturday afternoon in central Kabul behind the Ministry of Education. Blood was later seen on the street nearby, they said.

The bombing was believed to have been an attempt against General Najibullah, the sources said, because he was scheduled to give a news conference in a nearby building. They said the attempt could have been mounted by supporters of the former leader, Babrak Karmal, who resigned Thursday from his remaining government and party posts.

Harvard Scientists Retract Drug Claim

WASHINGTON (WP) — Medical researchers at Harvard University have officially retracted a series of articles in which they claimed to have discovered a natural substance that acted as a powerful stimulant of the body's immune system.

One of the scientists, who has since returned to Italy, reportedly admitted to colleagues that he had tampered with the data. The letter of retraction, published in the Nov. 28 issue of the journal Science, which published the scientists' first report earlier this year, concedes that the substance does not exist.

The substance, called interleukin-4A, was claimed to be a chemical relative of interleukin-2, a substance that is showing promise as a treatment for cancer and acquired immune deficiency syndrome. The Dana-Farber Cancer Institute at Harvard has set up a committee to investigate the incident.

Kaunda Says Pretoria Trade 'Unsafe'

LUSAKA, Zambia (AFP) — President Kenneth Kaunda warned Malawi and Zaire on Sunday that it was not safe for them to continue trading with South Africa while other nations, such as Zambia and Zimbabwe, were trying to cut such ties.

Speaking in Gbadolite, the town in northern Zaire where he met with President Mobutu Sese Seko and Angolan officials this weekend, Mr. Kaunda said that trade routes to South Africa were "simply not safe for anybody, Zimbabwe, Zambia or Zaire." Zaire and Malawi route most of their imports and exports through Zambia and Zimbabwe to South Africa.

"How can we go on allowing these trains to roll down here carrying goods from Malawi and Zaire when we ourselves are not trading with South Africa?" Mr. Kaunda said. He said a date to implement measures to be taken by Zambia and Zimbabwe against South Africa would be set when the foreign ministers of the two countries meet "sometime soon."

AP

President Kenneth Kaunda

EC Treaty Reform Advances in France

PARIS (Reuters) — The French National Assembly ratified an act to approve changes in the European Community's founding treaty by an overwhelming majority despite opposition within Prime Minister Jacques Chirac's conservative party.

The National Assembly voted, 498-35, early Friday to ratify the act, which will allow the EC to make decisions based on a majority vote instead of a unanimous vote, as required at present. Eight members of the governing Rally for the Republic Party abstained.

The act was strongly opposed by a group of senior Gaullists, who said it would harm France's national interests and put French sovereignty at risk. The text now goes to the Senate, which is expected to endorse it by mid-December. The only country in which ratification now is expected to present political difficulties is West Germany.

Lebanon Camp Battles Said to Kill 14

BEIRUT (AP) — Fourteen persons were killed and 39 wounded as Palestinian guerrillas and Shiite Moslem militiamen battled near refugee camps in Beirut and southern Lebanon on Sunday, the police said.

The artillery and mortar battles engulfed the Burj al-Brajneh camp in Beirut, Ain al Helweh in the southern port city of Sidon and Rashidiyeh near Tyre, south of Sidon.

Police said most of the casualties were at Ain al Helweh, where fighting raged for a third day between guerrillas of the Palestine Liberation Organization and the Shiite Amal militia.

For the Record

Brazil will adopt a price control policy similar to the one enforced in the United States during World War II and aimed at controlling inflation, Finance Minister Dilson Funaro said. He also announced price increases of up to 120 percent on automobiles, cigarettes, alcohol, gasoline, and telephone, mail and electricity rates. *(UPI)*

Nearly 100 Lockheed L-1011s of U.S. airlines must be inspected for wing structure problems, the Federal Aviation Administration said. The National Transportation Safety Board urged action after a mishap involving one of the TriStars on Nov. 13 in New Jersey. *(UPI)*

Jihad Mohammed Othman, a Jordanian, was imprisoned Saturday in Rome for 24 years and six months for the 1984 shooting of the vice consul of the United Arab Emirates in Italy and the murder of a woman who accompanied him, court sources said. *(Reuters)*

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AMERICAN TOPICS

Campaign Financing May Face an Overhaul

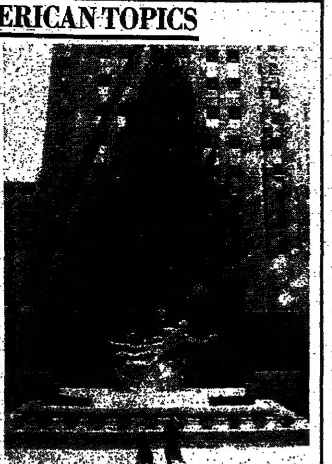
Congress, with many of its members tired of spending so much time raising campaign funds, may be ready to pass a law limiting campaign financing, The New York Times reports.

"It's an idea whose time has come," said Robert C. Byrd, Democrat of West Virginia who is the new Senate majority leader. "Too much money was spent in the last election, and everybody knows it."

Senator Barry Goldwater, an Arizona Republican who is leaving the Senate, said of the current system: "Are we saying that only the rich have brains in this country? Or only the people who have influential friends who have money can be in the Senate?"

Advocates of change expect fierce opposition from political action committees, or PACs, which represent various interests, such as trade associations and labor unions.

Senator Rudy Boschwitz, Republican of Minnesota, opposes change. More voters "get active in the political process through PACs than through the candidates themselves," he said.



G. Paul Burnett/The Associated Press

ROCKEFELLER CHRISTMAS TREE — The Christmas tree at Rockefeller Center in New York City towers above skaters on the center's rink. The tree, a 68-foot (20-meter) Norway spruce, will be lighted Dec. 1.

Short Takes

Incompetent doctors were penalized by state licensing boards 67 percent more often in 1985 than in 1984, the privately run Public Citizen Health Research Group reports. It counted a record 1,131 serious actions such as license revocations, suspensions or probations in 1985, compared to 678 in 1984. In the past, boards have been criticized as too lenient. The new militancy is aimed at saving both lives and money. Incompetent doctors add billions of dollars to the cost of health care, in expensive treatment needed to remedy mistakes and in malpractice premiums and settlements.

A Laotian refugee's murder conviction for stabbing his wife to death was overturned by the New York state Court of Appeals, which said testimony should have been allowed about "the stress and disorientation encountered by Laotian refugees in attempting to assimilate into the American culture." In a 7-0 decision, the court ordered a new trial for May Aphaylath, 28, in the 1982 slaying of his wife, Lati. Mr. Aphaylath said he stabbed her when she taunted him about a former boyfriend.

Shorter Takes: As of 1983, 53 percent of the nearly 8.7 million American women raising children without husbands were receiving no help from the father, according to the U.S. Census Bureau. ● Before McDonald's fast-food chain existed, 5 percent of America's potato crop was consumed as French fries. Now it is 25 percent, John F. Love reports in his newly published book, "McDonald's: Behind the Arches."

Notes About People

Russell Long, the retiring senator from Louisiana, says he is not going to run for governor next year. The 68-year-old Democrat, a senator since 1948, said he had thought for months about running but decided to retire completely from public office.

Liberace, 67, the stage pianist, also will be taking it easy, but only for a while. "Too many people wait and then it's too late," he said. "I keep putting things off," like a tour of Switzerland or a ride on the refurbished Orient Express. "I'm on an extended vacation. I don't want to make any plans," he said.

Priscilla Presley, Elvis's widow, is pregnant and unmarried, like the character she plays in "Dallas." Mrs. Presley, 41, has been living for the past two years with Marco Garibaldi, a Brazilian writer-director. A spokesman for the actress said she had no marriage plans and would continue on "Dallas" until the baby is born.

—ARTHUR HIGBEE

Conversation: There's More to It Than Meets the Ear

By Anne C. Roark
Los Angeles Times Service

LOS ANGELES — Imagine that you are walking down the street, and you see a friend and call to him. He apparently does not hear you, so you call again. This time, he turns and says, "Oh, I didn't hear you call the first time."

You might wonder how he knew you had hailed him more than once if he did not hear you the first time.

According to Emanuel A. Schegloff, a sociologist at the University of California, Los Angeles, something in your voice — its pitch, its volume, the pacing of your words — would have informed your friend that what he heard was not the first thing that had been said.

Such changes in tone, inflection, word pattern and timing are the subject of a scholarly discipline known as conversation analysis.

Founded by Mr. Schegloff and a colleague at the University of California two decades ago, the field has focused on a subject long neglected by scholars: the talk that occurs in real conversations.

Linguists and rhetoricians long have theorized about the formal structure and use of language, but until the advent of conversation analysis, its practitioners contend, there was no systematic attempt to understand how people actually speak to each other — the elaborate exchanges of information, the starts and stops, the often unintelligible utterances.

Even expressions such as 'uh' or 'well' are viewed not as mistakes but as intentional expressions of the rules of conversation.

In a book to be published soon, Mr. Schegloff explains some of the discipline's early findings this way:

Conversation, even chitchat, is not as disorderly as it seems. It is a highly structured enterprise that relies on a complex set of rules and highly regularized practices.

When people talk to one another, they usually talk one at a time, one after the other. When their talk becomes disorganized, there is an immediate effort to restore "order." Someone stops talking. Someone steps in to fill the silence.

Sometimes the order goes awry — a silence continues too long or simultaneous talk does not cease quickly enough. The conversation then takes on a special character. People fidget, look at the floor, shift in their seats. Or their voices become louder and higher pitched.

These, Mr. Schegloff says, are "special states" of conversation that are invariably and quickly resolved in favor of normalcy: one speaker at a time, no more, no less.

These observations hardly seem startling on their face. Parents long have taught their children not to interrupt, not to talk too much and to answer questions when asked.

But how do people know what is too much? How do they know when their turn is up? What happens when people speak out of turn, or fail to speak at all?

"The assumption before was that talk was very personal, very idiosyncratic," said Deirdre Boden, a professor at Washington University in St. Louis.

But now, said Ms. Boden, even expressions such as "uh" or "well" are viewed not as mistakes but as intentional expressions of the rules of conversation.

Scholars say that the formal analysis of conversation grew out of ethnomethodology, a rather esoteric area of sociology created in the early 1960s by a UCLA scholar named Harold Garfinkel. Mr. Garfinkel's approach to studying human behavior was to observe the mundane details of how people behave in particular situations, such as buying clothes.

Today, the field is still small, with fewer than 30 full-time scholars, and a basic textbook has yet to be written on the subject.

Behind the concerns of many researchers, they say, is an important question: who dominates talk and holds power in a conversation.

Perhaps the most vivid use of power in conversations was evident in the interrogations of alleged Communists by the U.S. House Committee on Un-American Activities in the 1950s, according to a study co-authored by Ms. Boden and Harvey L. Molotch.

Those accused of being Communists often were forced to take refuge in the Fifth Amendment simply because of the structure of the oft-asked question — "Are you now or have you ever been a member of the Communist Party?"

Many people wanted to explain the context in which they had been party members, Ms. Boden said. But the questions were framed in such a way as to leave the accused with only one option — to say nothing, Ms. Boden said.

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Military Ruler Says Haiti Is in a 'Political Vacuum'

By Joanne Omang
Washington Post Service

WASHINGTON — Politicians in Haiti have created "a political vacuum" there by failing to organize into parties or offer positive programs, according to the head of Haiti's provisional government.

Lieutenant General Henri Namphy visited President Ronald Reagan and members of his cabinet on Friday to reaffirm plans for a new president to be elected next November and to take office in February 1988.

General Namphy, 54, is the head of the commission that has governed Haiti since the forced departure Feb. 7 of former President Jean-Claude Duvalier. The commission is dominated by the military.

Larry Speakes, the presidential spokesman, said that Mr. Reagan had "expressed his firm support for General Namphy's efforts to build democratic institutions and achieve the goal of a working democracy over the next 15 months."

Mr. Speakes also announced that an additional $10 million in technical training assistance would be provided to Haiti, bringing U.S. economic and military aid this year to more than $100 million.

Reuters-UPI

General Henri Namphy

General Namphy has been criticized by politicians on the left and the right as being reluctant to move against former associates of Mr. Duvalier, and as being slow to respond to unrest and to reform Haiti's economy. About half the work force in Haiti is unemployed and the literacy rate is below 20 percent.

General Namphy said later in his first extensive interview since taking power, that if his democratic goals were to be achieved, his government "will have to intervene in order to educate the people further" in democratic ways.

He said civic education was required on the need to join a debate over the nation's future. Trade unions, the media, political groups and other pressure organizations especially needed this education, he said.

"We have to show to the people what being a citizen means," he said.

"The politicians have to come forward, present their parties, organize themselves, present a program," he said. Then, he said, they have to "come and meet with us, work with us."

Participation by voters in elections in October for a constituent assembly was very low, he said, because "our population is not really ready for the democracy we dream of."

That is a long-term process," General Namphy said.

The armed forces and the Roman Catholic Church were the two leading forces in Mr. Duvalier's overthrow after 29 years of dictatorial family rule. But neither has political candidates, General Namphy said.

He said there were nearly 100 "one-man parties" in the nation of six million people. But, he said, they have "no credibility" yet, "continually saying, 'Down with the army' without ever saying what they favor."

"Therefore we have a political vacuum," General Namphy said.

Asked whether he might stay in power past the election if the situation did not improve next year, he said he "would like to think" that the political system would be functioning.

"If not, I have to despair," he said.

Soviet Finishes Radar Site, U.S. Says

By Michael R. Gordon
New York Times Service

WASHINGTON — The Soviet Union has completed the construction of buildings to house a large new radar center in central Siberia, according to U.S. government experts.

The radar, at Abalokovo, north of Krasnoyarsk, is not yet "on the air" but may be within a year, the experts said.

The large phased-array radar has been a focus of dispute for two reasons.

For one thing, the United States contends that the radar violates the 1972 Anti-Ballistic Missile Treaty because it is not on the periphery of the Soviet Union and is not oriented outward. The Soviet Union says the radar is intended for tracking space vehicles, which is allowed under the treaty.

The radar also has been the subject of a separate debate within the U.S. government over its military usefulness.

Some officials contend that the radar's construction suggests that the Soviet Union may be intending to build a nationwide missile-defense system. Other officials believe the construction of the radar does not necessarily imply this.

They say that the radar probably is intended to provide early warning of a U.S. attack, including U.S. submarine-launched ballistic missile attacks from the Pacific Ocean.

Moreover, the Central Intelligence Agency has noted that the radar is potentially vulnerable to attack, which limits its usefulness in an ABM system.

Government experts who reported completion of the buildings said that the work was finished in recent months and that the Russians now were presumed to be working on the electronic and computer equipment inside the buildings.

■ **Criticism of Reagan**

The Soviet establishment attacked President Ronald Reagan personally Saturday for the second consecutive day, an indication that Moscow has given up on achieving arms reductions during the Reagan administration, United Press International reported from Moscow.

In an article entitled, "What God Does Mr. Reagan Worship," Tass, the official press agency, said that despite the plea of all modern religions for peace, the Reagan administration seemed to be suggesting "nuclear apocalypse is inevitable."

"In reality, he worships only the god of war and the embodiment of that god on earth — the military-industrial complex," according to a political analyst, Anatoli Krasikov.

On Friday, Georgi A. Arbatov, director of the Institute for U.S and Canadian Studies in Moscow, called Mr. Reagan an untrustworthy "provincial ideologist."

5 Soviet Deserters Are Sent To Canada by Afghan Rebels

The Associated Press

OTTAWA — Five Soviet Army deserters have been brought secretly to Canada by the government after being held captive by Afghan rebels for about three years, newspapers reported.

Prime Minister Brian Mulroney confirmed that the five were "safe and sound" in Canada, but he said no further information would be released until later this week.

The men were taken to a Canadian armed forces base in Ontario Province for debriefing, The Whig-Standard newspaper of Kingston, Ontario, reported Saturday, quoting unidentified sources. The sources said the men were in good health.

The soldiers were identified as Sergei Busov, 22, a driver-mechanic; Nikolai Golovin, 23, an electrician; Igor Kovalchuk, 26, an electrician; Vladislav Naumov, 24, a paratrooper; and Vadim Plotnikov, 21, a demolition expert.

They were flown Thursday to Canada after being released in two groups and united in Pakistan, The Whig-Standard said.

A sixth man was too far inside Afghanistan and could not be brought out, The Toronto Globe and Mail newspaper reported.

Efforts to bring six Soviet deserters to Canada began in July 1984 when a Toronto lawyer, Serge Jusyp, met several of the deserters in Afghanistan.

Mr. Jusyp, who was acting on behalf of the Holy Trinity Russian Orthodox Church in Toronto, got rebel leaders to agree to release the deserters if Canada offered them asylum.

Sources said the soldiers had cooperated with their captors, giving them information about Soviet troop strength, tactics and training.

U.S. Will Suspend Deportation of Some Illegal Aliens

New York Times Service

WASHINGTON — The Immigration and Naturalization Service has instructed its employees to suspend the deportation of illegal aliens who appear to qualify for legal status under a new U.S. immigration law.

"Effective immediately and until further notice," said Alan C. Nelson, the commissioner of immigration and naturalization, in a telegram to employees throughout the United States, "an alien apprehended in the interior" of the United States "shall be given the opportunity to establish a nonfrivolous claim" to legal status, or amnesty.

To qualify, he said, illegal aliens must demonstrate that they entered the United States before Jan. 1, 1982, and have lived in the country continuously since then.

The government will not accept amnesty applications from illegal aliens until May 1987. But the new law forbids the government to deport illegal aliens who are apprehended before then and who appear to have plausible claims to amnesty.

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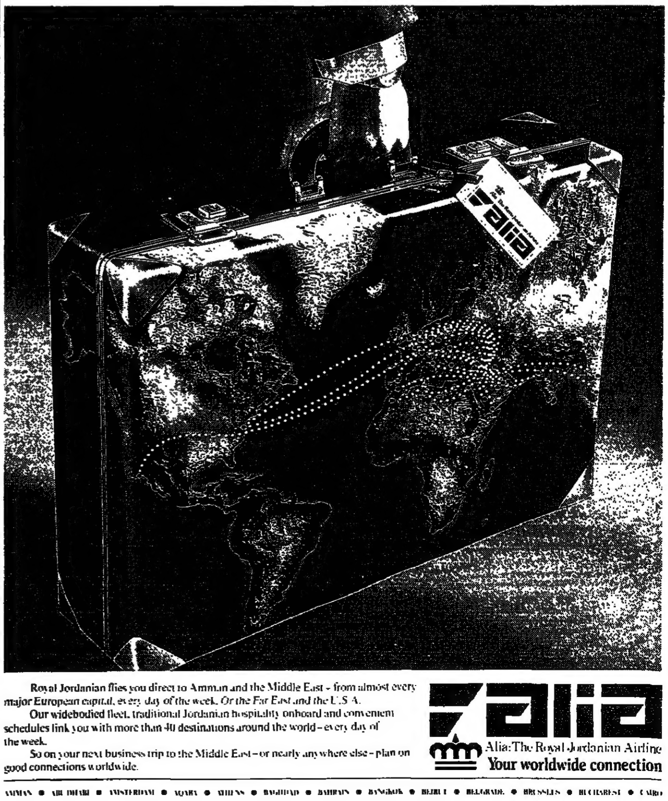

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OPINION

Herald INTERNATIONAL Tribune

Published With The New York Times and The Washington Post

It Won't Blow Over

Stay the course, Mr. President. Tough out all this noise about Iran. Thanksgiving will soon be upon us and with the holidays people will forget. Keep saying you were right to try. Stick by Don Regan and John Poindexter; otherwise your critics will start choosing your cabinet. Remember, Mr. President, standing firm has always worked for you. And look, according to ABC News, 62 percent of the people still trust you.

Are President Reagan's aides giving this counsel? It sounds like it from his efforts to rationalize the Iran fiasco. Such advice fails to explain Iran. It could also destroy the last two years of the Reagan presidency.

The president's present trial differs from the past. The public now seems to feel more than anger about the foolish course pursued toward Iran, more even than profound disquiet about the intellect and skill of those around the Oval Office. What now seems evident, rare in the last six years, is doubt about the president himself.

The same poll that showed trust also showed that most Americans do not believe that Mr. Reagan is telling the truth about Iran. The poll put his general job rating at a high 57 percent — but that is a spectacular 10-point drop in one week.

Worrying is matched by scurrying. Mr. Reagan reaffirms the rightness of his policy toward Iran, but Robert McFarlane, who launched it, now says it was wrong. Privately he seems to be blaming John Poindexter, his successor as national security adviser, for carrying things too far. Meanwhile, the White House puts out the word that it was all Israel's idea — that Israel supplied many of the arms for Iran without Washington's approval. Israeli officials deny it.

And Defense and State Department officials keep pumping out anecdotes about how their bosses, Caspar Weinberger and George Shultz, thought that sending arms to Iran was crazy from the beginning and were thereafter kept in the dark. White House officials say otherwise.

Such are the signs of real panic, the likes of which have not been seen before in this administration. Until now, officials have felt that President Reagan's popularity would protect them.

The president has faced trouble before. His popularity plummeted during the 1982-83 recession. Then the economy gathered steam and carried almost all else before it. There were tumultuous disputes about Lebanon after the Israeli invasion there. Then Alexander Haig resigned and matters settled down. Grenada quickly distracted from the shocking marine deaths in Beirut. But in each case the controversy focused either on policy or on personalities. Now the issue is Mr. Reagan's capacity to govern. Recent behavior knocks the assumption that his aides can always support and protect him. Consider how poorly briefed he was for his news conference last week.

Stay the course? Stand tall? For the sake of his capacity to govern, more far-reaching remedies are in order. Perhaps that means something dramatic like bringing James Baker back to the White House from Treasury and Brent Scowcroft back from retirement to his old job as national security adviser. Perhaps it also means using the holidays not to tough things out but to think them out, and then share a new and plausible agenda with the nation.

— *THE NEW YORK TIMES.*

Level With Congress

Tighten the requirements for informing Congress of covert operations, say critics of President Reagan's failure to give timely notice of his Iran exercise. But the problem is not that the requirements in the Intelligence Oversight Act are too loose. It is that the White House broke the compact — consultation in return for secrecy — that the two branches made after three administrations' worth of inquiry and argument.

The 1980 law came out of a Vietnam-era battle over foreign policy prerogatives. But Congress had more in mind than tending to presidential abuses and cutting back on executive discretion. The legislation also reflected an intention to give the president the several benefits of consultation with Congress — its counsel and its acceptance of joint responsibility for risk-taking. The law covers, by the way, not simply the CIA but also "all departments, agencies and other entities of the United States involved in intelligence activities." So much for the contention that the administration had no formal obligation to consult Congress on Iran because the job was being done in part by the National Security Council.

Even when, some months after the NSC began the mission, Mr. Reagan formally brought the CIA into it, he let 10 months pass before notifying the two intelligence committees. Ten months does not seem to meet either the law's general requirement to keep the committees "fully and currently informed" or its special requirement to give "timely" notice of intelligence operations of which prior notice was not given.

The administration explains its action by saying that Congress can't keep a secret. But this necessary concern about security was thrashed out in the 1980 law. It even anticipated "extraordinary circumstances" in which prior notice would be given to just eight key legislators. This was the way designed to give a president the benefit of outside congressional advice and to reduce the possibility of leaks — leaks at the congressional end, that is.

Congress, as well as the executive branch, exhibits some historical amnesia about the law. But it was good when it was enacted, and it is good now. There are real constitutional, political and procedural difficulties in any attempt to draw the language more tightly or to punish the president otherwise — by, for instance, making the national security adviser subject to Senate confirmation. The national interest has suffered from the administration's failure to respect the accountability provisions of the law, and it is paying heavily for the lapse. Does the president really need more convincing on why he should level with Congress?

— *THE WASHINGTON POST.*

Piling Up the Debts

While the federal debt has been rising, every other kind of debt has been rising in America as well. Corporate debt is now higher in proportion to corporations' net worth than at any time since World War II. Similarly, household debt is higher in relation to income, as is consumer debt.

It is a sharp departure from the firmly established pattern of the postwar period. From the late 1940s to the early '80s, public and private debt, taken all together, stayed at a remarkably constant ratio to the size of the economy. In recessions, private debt dropped and public debt rose; in recoveries, it was the reverse. But around 1983, public and private debt took off upward, measured not only in dollars but also in relation to the borrowers' resources to carry it. Federal debt led the way. But, strangely, as if the Reagan deficits had suddenly made debt fashionable, businesses and families followed that example and went much more heavily into debt than ever before.

L. William Seidman, chairman of the Federal Deposit Insurance Corporation, in a speech last week, discussed this explosion of indebtedness at length. The FDIC is the agency that insures bank deposits — and that takes over when a bank fails. Mr. Seidman is worried about the effect of rapidly expanding debt on the stability of the banking system that he regulates.

When debt rises relative to GNP, bank failures also rise. There were more bank failures last year than in any year since the trough of the Depression in 1933. And there have been more failures so far this year than in all of last year. The strains on the banking industry are not limited to small rural banks, as you know if you have been following the troubles of BankAmerica.

The banking system is no longer quite as stable as it was four or five years ago and, as Mr. Seidman said, "the current climb in debt in this country cannot be extended for many more years without the potential for unacceptably increasing risk." He is making a point that needs to be taken seriously, especially by Congress when it takes up banking legislation next year.

When that happens, the congressional committees are likely to focus on specific lending practices. Beyond that, however, the sheer scale of debt — federal, business and personal — requires attention. Ensuring the safety of the financial system is going to require restraint in lending. Particularly in the past five years, the United States has depended heavily on rapid borrowing to maintain its prosperity. The mountain of debt has reached a point at which it is beginning to be dangerous to lenders and borrowers alike.

— *THE WASHINGTON POST.*

Other Comment

The Emperor Is in Trouble

There can be no convincing defense of President Reagan's abortive arms deal with Iran. It was a major blunder. The difficult question is how the allies should react to this frightening spectacle of American stupidity, duplicity and incompetence. Since President Reagan is going to be in power for another two years, there is every reason for allies to do everything they can to prevent his reduction to lame duck importance. The allies, if they are responsible, will keep their criticism to themselves, since nothing but harm can come from drawing attention to the emperor's lack of clothes.

— *The Sunday Telegraph (London).*

The issue is not about to rest. Central to the controversy are such questions as the extent of the president's power and the ethics of acting without the consent or even knowledge of the rest of the administration. These are matters that go beyond the rights and wrongs of a particular decision.

— *The New Straits Times (Kuala Lumpur).*

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'Creeps' Casey, 'Bugs' Buchanan, 'Cake' McFarlane, the boss, 'Admiral' Poindexter, 'Rats' Regan and hostage.

Reagan Needs Help, but From a New Set of Friends

By James Reston

WASHINGTON — The main question now is not how President Reagan got into this latest mess in Iran but how he is going to come out of it as an effective leader of America and the alliance.

Mr. Reagan will be president for two long years in which what he decides or fails to decide will influence the life of the American people and even of the world during the last 14 years of the century.

So the immediate problem is not how to blame him but how to help him, and eventually how to replace him with somebody who knows not merely how to get elected but also how to govern and lead a nation and defend a civilization.

Clearly Mr. Reagan needs help. His performance recently on nuclear arms at the Iceland summit, on "disinforming" America on Libya and on arming the "contras" in Nicaragua and the mullahs in Iran has been alarmingly defective. And his public defense of these antics has been painful, even embarrassing.

He has not been getting the help he needs from his White House staff. They know his limitations better than anybody else, but in trying to replace him with their "help" they have doubled and redoubled his problems.

So what to do? Iran was not a disaster but merely a warning. The president is still the most popular actor on the American political stage. His problem is not to defend the past but to change the question and to plan for the future.

The Democrats don't have a clue about how to deal with Iran and the Middle East — nobody does — but Mr. Reagan cannot get their cooperation in his last two years by blaming them for his mistakes and insisting that he was right on everything and that his critics were all wrong. His problem lies not with his opponents but with his friends.

Secretary of State George Shultz has made clear in public that he did not agree with the president's latest adventure in Iran. Nobody can remember a time here when two former presidents have gone on national television to oppose the president on a major policy decision such as Iran, the way Presidents Ford and Carter did last week. Suddenly, and for the first time, public opinion as measured by the polls has begun to doubt the president's judgment.

It is this switch in popular support that is now worrying the president and his staff. For six years the American people have not had a political relationship but a kind of love affair with Ronald Reagan; but lately they have begun to wonder, for he has not been leveling with them but deceiving and even cheating them. The danger is that, as in all love affairs, they may now turn on him and make things even worse than they really are.

Mr. Shultz has sensed this danger and has been trying to reconcile differences between the White House and the State Department, and between the president and Congress. However, Mr. Reagan's staff has not seemed to understand the problem.

The head of the National Security Council, John Poindexter, author of the White House "disinformation" policy, has been a disaster in his attempts to explain Grenada, Libya and Iran to Congress and the press. So there is a view here that, looking to the future, the White House staff should be changed and that, to begin with, Admiral Poindexter, the fourth NSC chief in six years, should go into long-overdue retirement.

Donald Regan, the White House chief of staff, has been almost too frank in his description of his work. "Some of us," he said the other day, "are like a shovel brigade that follow a parade down Main Street cleaning up. We took Reykjavik and turned what was really a sour situation into something that turned out pretty well. Who was it that took this disinformation thing and managed to turn it? Who was it that took on this loss of the Senate and pointed out a few facts and managed to pull that?"

The answer is obvious. It was Donald Regan, Pat Buchanan and the rest of the administration's gay deceivers, who, with the president's approval or indifference, created the worst crisis of confidence in Washington since the days of Richard Nixon.

But the central fact remains: Ronald Reagan is the only president America has and he can still turn all this around if he can deal with the main problem of world affairs — the nuclear arms race with the Russians.

He can no doubt restore the confidence of the nation by a change of attitudes and a change of staff, but he keeps insisting that everything he did in Iran, in Iceland and in Nicaragua was right and everybody else was wrong. Unless that is changed, it will be a long and tormented two years at the end of Mr. Reagan's presidency.

The New York Times.

Europe May Be Missing the Green-Fueled Boat

By Giles Merritt

BRUSSELS — While focusing its economic hopes and fears on electronics, Europe may be missing the boat in another area. National rivalries and bureaucratic shortsightedness may ruin its chance to develop "green" gasoline that could help it save substantially on oil imports and dispose of much of its farm surpluses.

The list of problems that might be solved by an all-out effort on green gasoline is impressive. Europe's bulging granaries would find a healthy new home market for food now rotting in storage, and this would defuse the Community's dispute with America over subsidized farm exports. European farmers would get a new supply of cheap animal gluten feed as a by-product of making green gasoline. And homegrown renewable energy could be substituted for imported oil.

Green gasoline — bioethanol — is the ethyl alcohol obtained from distilling cereal grains or sugar beets. It can be used to enhance octane in gasoline and could be crucial when lead additives become illegal in the Community in 1989.

The arguments for and against using large quantities of surplus food to make bioethanol are complex. But the real issue is that the vested interests so often responsible for Europe's inertia have managed to prevent the bioethanol issue from being debated properly. The green-gas option may already have been lost.

Europe came late to bioethanol. In the United States, the "gasohol" program was launched early in 1980 by President Jimmy Carter. Brazil's much more ambitious strategy for a sugar cane-based alternative to imported oil began in 1975. American oil companies like Texaco, Chevron and Amoco now offer gasohol, but the European petrochemical lobby has remained negative.

The major drawback of bioethanol is its apparent expense. It costs two to three times more to produce it, depending on the crop involved, than to make methanol from fossil fuels. A $1-billion investment program, over seven years, would be needed to develop production facilities. Add the cost of subsidizing production and/or consumption, and the price rises to at least $3 billion for the initial three years of any EC program. So the cost of producing 3.4 million metric tons of bioethanol in Europe is reckoned to come to $1.3 billion a year more than it takes to import oil.

But the economic case can be stated differently. If the costs associated with the Community's common agricultural policy are brought into the calculations, the picture changes dramatically.

European taxpayers pay about $30 billion a year in EC and national farm subsidies. They pay direct subsidies to produce more surplus food. They pay for the food to be stored (even though half of the cereal, meat and dairy food in storage is now inedible), and finally they pay for export subsidies so that the surpluses can be dumped on world markets. And it is a losing battle. On the latest projections, the present ruinously expensive EC grain surplus of 32 million metric tons will by 1990 have climbed to 89 million tons.

The U.S. and Brazilian programs show how fast a determined strategy can take effect. Brazil has moved from its experimental introduction of a 20-percent blend of ethanol and is producing an entirely "green" gasoline. About a fifth of all vehicles run on this pure ethanol. Soon Brazilian aircraft will be using it. The country, meanwhile, has slashed oil imports by 46 percent.

In the United States, the gasohol program suffered from a belief among the public that ethanol additives damage the motor (tests on this have been inconclusive). Yet there have been encouraging results. Federal tax incentives have helped gasohol to win a foothold in the market, and by 1990 it could account for 26 percent of all octane enhancers. Its production cost may by then have dropped to 90 cents a gallon.

The outlook for Europe is unclear. The politicians and officials concerned with energy issues are not those dealing with the headache of farm policy, so the idea of using farm subsidies to finance energy substitution faces bureaucratic obstacles. It also suffers from a lack of urgency. A European Commission feasibility study on bioethanol will not be ready until 1988.

International Herald Tribune.

India: Gorbachev Will Have Some Explaining to Do

By S. Nihal Singh

BOMBAY — The first visit to India by Mikhail Gorbachev, which starts on Tuesday, will be a landmark comparable in its potential to the famous visit by Nikolai Bulganin and Nikita Khrushchev in 1955, which set the course for close relations between the two countries. In Mr. Gorbachev's case, his journey to New Delhi might well be the beginning of a less amiable relationship.

The high stakes involved in the visit are underlined by the unprecedented nature of the preparations. Top Indian and Soviet officials have been commuting to each other's capital practically every day for the past several weeks, implying the differences that need to be addressed.

Among agreements being reached are the projected traditional doubling of bilateral trade and a large Soviet ruble credit for India's core industries. But these gestures of future economic and technological cooperation — military deals are seldom advertised — will be overshadowed by the political issues on the agenda.

Mr. Gorbachev's Vladivostok speech last July offering an olive branch to China set alarm bells ringing in New Delhi. India's troubled relations with China, symbolized by the border war of 1962, and Russia's own bumpy relationship with China in recent decades had served to bring New Delhi and Moscow closer than they would otherwise have been. India and the Soviet Union signed a 20-year "friendship" treaty in 1971.

Mr. Gorbachev's speech came at a time when India's hopes for better relations with China had been dashed by a Chinese intrusion in the northeast along the disputed border. India took pains to play down the intrusion, which the Chinese denied, but it revived fears about future Chinese policies toward the subcontinent.

The logic of a Chinese-Soviet rapprochement implies that the central arch in the Indian-Soviet relationship, a shared unhappy relationship with China, is on the verge of disappearing. One inevitable effect would be on the implicit Soviet nuclear umbrella for India represented by the treaty. India is therefore deeply interested in divining the extent of Soviet approaches to Beijing.

The Russians are nervous over India's new economic relationship with the United States and over the interaction between Indian and U.S. defense industries, symbolized by the first-ever visit of a U.S. defense secretary last month. Caspar Weinberger sounded an optimistic note during his well prepared visit to New Delhi.

The Pentagon has virtually cleared a defense-technology package of General Electric 404 engines and avionics for the proposed Indian-built Light Combat Aircraft. And the U.S. government has decided in principle to sell a supercomputer — a long-standing Indian request — subject to agreed safeguards being worked out.

Mr. Gorbachev's threefold objective will be to reassure India on the China question, end the budding Indian defense-oriented relationship with America and seek Indian support for an All Asia and Pacific Conference, a refurbished version of Leonid Brezhnev's Asian collective security idea. Besides, the Soviets are pressing India to accept their offer — made to two prime ministers before Rajiv Gandhi — of two 440-megawatt nuclear power plants.

Mr. Gorbachev will not find it easy to achieve his political objectives. He is unlikely to succeed in allaying suspicions on his new policy orientation toward China. Nor will India easily accept an Asian and Pacific conference, now shorn of its anti-Chinese undertones. Indian expert opinion has been consistently against the Soviet nuclear power plants because the Soviet use of light water reactors employing enriched uranium does not mesh with India's heavy water reactors. And Chernobyl has not been a good advertisement for Soviet civilian nuclear practices.

The one area in which the Gorbachev visit is capable of partial success is in souring the burgeoning Indian-U.S. relationship. The recent U.S. offer to the traditional Indian adversary, Pakistan, to provide AWACS surveillance of its territory has cast a shadow over Mr. Weinberger's otherwise successful visit to India and will be exploited by Mr. Gorbachev.

In any event, Mr. Weinberger's visit offers Mr. Gandhi a useful lever in his talks with Mr. Gorbachev, not in the sense of ostentatiously playing the America card but of making his points less defensively. The mood in the Indian capital was distinctly bleak after Mr. Gorbachev's call to China to bury the hatchet. The Soviets have made a major effort since Vladivostok to convince Indians, at official and nonofficial levels, that the new approach to China will not affect Indo-Soviet relations.

The Soviet objective in Asia remains what it was: to achieve the status of primary superpower by virtue of its proximity and the fact that a large part of the Soviet Union falls in Asia. Mr. Gorbachev has explicitly expanded his ken to include the Pacific, an aim implicit in Mr. Brezhnev's collective security concept.

India is a key factor in Soviet plans because of the close relationship between the two countries and its status in the nonaligned movement. The Soviets' argument that they are seeking to duplicate the Helsinki process in Asia has made few converts in India. Endorsing the call for an Asian conference would negate India's efforts to chart an independent course.

The writer is author of a recent study of Indo-Soviet relations, "The Yogi and the Bear." He contributed this comment to the International Herald Tribune.

An Errand In Need of Of Stature

By Jim Hoagland

PARIS — President Reagan confronts a choice between a bad deal and no deal on arms control as his presidency ends. There is one way out of this dilemma that he must consider, painful as it may seem.

Every passing day brings new evidence of how bad a deal his aides now think he almost made at the Iceland summit. They, of course, cannot say that to him or to the public, so they resort to the time-honored tactic of blaming the press and the people for misunderstanding what his real vision was. They then quietly trim off a corner of the rug that Mr. Reagan and Mr. Gorbachev thought they had almost woven together at Reykjavik.

Thus, Secretary of State George Shultz said last Monday in Chicago that the United States might want to retain some ballistic missiles, despite Mr. Reagan's proposal at Reykjavik to eliminate such missiles. That same day a Pentagon official, Richard Perle, explained in Paris that the president never intended to throw U.S. bombers and nuclear-armed cruise missiles stationed in Europe into the deal. They are too valuable in protecting Europe, Mr. Perle obligingly told his Euro-audience.

By Wednesday, Mr. Reagan himself had been persuaded to drop the elimination of all ballistic missiles in 10 years as a priority item in the Geneva arms control negotiations.

All of this is significantly complicating the task of the American negotiators at Geneva, who are valiantly attempting to preserve Mr. Reagan's option to negotiate an accord based on the real Soviet concessions made at Reykjavik. They are reduced to praising Soviet reiterations of the Reykjavik discussions on strategic and theater nuclear weapons as "progress" in hopes they can lock the Soviet side into those positions.

But the Soviets have adopted the reverse strategy, doing their "walking back" of the Reykjavik terms in private in Geneva while publicly saying they have not changed their position.

Soviet negotiators are toughening their terms on eliminating submarine-launched cruise missiles, and are expressing reservations about letting the United States station Pershing missiles in Alaska as part of a global medium-range missile agreement.

Moreover, the Soviet negotiators are indicating that they are not bound by the detailed discussion on strategic arms subceilings held at Reykjavik. These tentative understandings were considered as breakthroughs by U.S. experts who saw a chance to restrain the heavy SS-18 and new SS-24 mobile missiles that are the most destabilizing part of the Soviet nuclear arsenal.

But to keep the Americans engaged in bargaining that might eventually lead to the restraints on space weapons that the Soviets say they want, Moscow's negotiators appear to be suggesting that if the price is right they could come back to a subceiling of 1,500 to 1,800 warheads for these two missile categories in the first round of strategic arms cuts.

That is a significant inducement to continue serious negotiations, and Mr. Reagan's team in Geneva seems determined to do that. But the confusion surrounding what he agreed to, and what his aides now want to take back as they face pressure from European leaders like Margaret Thatcher and Helmut Kohl, is so intense that it will be difficult for the Geneva negotiators to come up with a solid agreement — in short, with the one foreign policy accomplishment that could rescue Mr. Reagan from the damage done by the disclosures on Iran.

To get the substantial deal that can now be had, bringing deep reductions in strategic and intermediate-range missiles in return for mutual agreement on the development and deployment of space weapons, Mr. Reagan must be represented by a senior figure with the authority and expertise to cut through the current confusion and deal with the Soviets. Despite the perversions of policy that his National Security Council staff have committed under the cover of secrecy, Mr. Reagan should consider re-establishing the back-channel connection that Henry Kissinger used to stabilize superpower relations.

The only two men with the stature and skill to bring off such an operation are Mr. Kissinger and Ambassador Paul Nitze. Neither is probably eager for such an assignment, and Mr. Reagan would infuriate his constituency by asking Mr. Kissinger to bail him out with the Soviets. But the alternative is continuing confusion, no agreement, and the handing to the Democrats of a strong issue in 1988 by the growing appearance of Republican incompetence in foreign affairs.

The Washington Post.

IN OUR PAGES, 75 AND 50 YEARS AGO

1911: Fancy Dressers

NEW YORK — It is estimated by European experts that American women now spend a much bigger average for dress than any other women in the world. The New York representative of Paquin (Paris) has made a special study of the subject. Undoubtedly America has reached an era of unexampled extravagance. The representative states that every woman attending the New York Horse Show, the fashionable function of the year in the American metropolis, spends an average of $1,600 for dress. She bases the statement on the following prices: hat, $150; gown, $800; ordinary cloak, $500; lace stockings, $15; lingerie, $125; gloves, $10. The estimate does not include the cost of the "beauty spot." It is now the custom to have such a spot painted on the most attractive feature, and the painting costs $2.50.

1936: War's First Shot

BELGRADE — Major Michael M. Miloykovich, the man who fired the first shot in the World War, died here [on Nov. 23]. He was a subaltern on patrol along the River Sava early on the morning of July 28, 1914. "I was near the wrecked Sava Bridge, previously blown up by the Austrians," he once said, "when I noticed barges creeping across and down the river toward Belgrade. I saw helmets of the enemy type, decided that the first Austro-Hungarians were either attempting a surprise attack on Belgrade, or that a party of scouts was reconnoitering. I decided to take a pot-shot at them to confirm my suspicions. Directly I did so, heavy firing broke out from the barges, and my company returned the shots until the barges made for the opposite bank." The Austrian bombardment of Belgrade began the next day, July 29.

OPINION

The Administration Needs Candor and Talented Staff

By George F. Will

WASHINGTON — If, as is said, there is nothing like a calamity to take your mind off your troubles, the administration can console itself with this thought about the mishandling of the aftermath of its Iran misadventure: No one is talking about the deficit.

The misadventure now has the familiar attribute of Washington's consuming obsessions: The result of each attempt to put it to rest is an exponential growth in the number of questions about it.

A presidential speech and news conference have been devoted to it, and all they have accomplished is to put the president on the edge of a precipice. He seems defensive, evasive, ill at ease — in short the one thing he of all leaders dare not seem: out of character. We may be about to see realized the potential volatility of public opinion that has been fixed on an intensely personal affection for a president's personality.

The aides in close contact with Reagan are the least distinguished such group to serve any president in the postwar period.

Today America's mind is ambivalent, unformed — soft wax ready to receive fresh imprints. Horace Busby notes that 20 percent of those who voted on Nov. 4 did so in eight states — Alabama, Alaska, California, Florida, Idaho, Illinois, New York, Pennsylvania — that elected four Democratic and four Republican governors while in each case choosing a senator of the other party.

Another clue to the mood: Of the 13 new senators, nine have served in the House of Representatives, one has served there and in a cabinet office and three have been governors. The electorate is in no mood for amateur hour in Washington. It craves competence.

The Iranian episode radiates incompetence — in its substance, execution and apologia. After the Daniloff and Iceland episodes, it has encouraged this judgment: The aides in close contact with President Reagan today are the least distinguished such group to serve any president in the postwar period.

The nation's disposition may be quite changeable, not because the nation is unusually volatile but because of the nature of Mr. Reagan's relationship with it. After the loss of the Senate, his people deflected the suggestion that he is a lame duck, arguing that a man with such a high job-approval rating, and a personal popularity unrivaled since Eisenhower, can't be lame. But the botching of Iran policy will take a toll on job approval. Even more important, his personal popularity will decline, perhaps precipitously, unless he and his administration quickly put an end to the truculence, sophistry, score-settling among rivals trying to keep their skirts clean, and grudging over-lawyered explanations.

The presidency is an inherently — meaning constitutionally — weak office. There is little a president can do on his own, except sway the country and thereby move Congress. The power of the presidency, unlike, say, the power of the office of the British prime minister, varies substantially with the qualities of the occupant. And the power of a particular president can vary radically with swings in the public's perceptions of him.

Mr. Reagan's hold on his country's affection rests to a remarkable degree on his reputation as a politician of clear principles clearly spoken. The average citizen, meaning the only slightly attentive citizen, values Mr. Reagan as a leader precisely because we need not listen closely to him lest we be tricked by him. Clarity and consistency, important to any president, are especially so to this one because those qualities, rather than, say, a reputation for expertise, form an unusually large part of the foundation on which approval of him rests.

What caused scalding criticism from some usually sympathetic persons during the Daniloff affair was the words-mean-whatever-we-choose abuse of language: The swap was no swap, the summit was not a summit. Similar intellectual corruption has seeped into administration statements about Iran, evasive statements that have been too clever by half concerning whom U.S. officials are dealing with in Iran and why.

Public revulsion about this may be magnified by the coincidental eruption of a private-sector scandal on Wall Street. What is the connection between the Iran misadventure and the Ivan Boesky insider-trading case? Perhaps there is none. Or perhaps the following:

The political climate can be conditioned by the echo of one event in an unrelated event. It is impossible to prove but hard to doubt that there was a connection this year between the passage of sweeping tax reform and the sudden surge of concern about "Deaverism," the lawyer-lobbying influence industry. Evidence of bad judgment and bad faith at the center of government may soon mix in the public mind with a Niagara of evidence of corruption at the symbolic center of the private sector, Wall Street. The public is apt to be made uneasy by a vague sense of enveloping malpractice in important institutions.

To insulate itself from this, the administration needs to try candor, which means acknowledging serious mistakes. The administration also needs an infusion of talent, which means, for starters, a new national security adviser.

Washington Post Writers Group.

Forget the Guided Travesty And Give the Bear a Break

By Charles M. Haynes

LAPORTE, Colorado — Appeals to the primitive still abound. A case in point is a brief article in a recent issue of a high-gloss fun and fashion magazine. Sandwiched between ads for British cologne and fine liqueurs, and adjacent to a photograph of a menacing-looking Kodiak brown bear, is the question, "Why Not Hunt Bears in Alaska?"

MEANWHILE

"After all," the article says, "you've been chasing them off Wall Street for the last few years, feeling very manly about it. On occasion, maybe you've even wanted to shoot one."

This is no ordinary bear, the piece suggests, but an "aggressive eight-foot tall, 1,200-pound monster." The challenge is unmistakable, You are well-heeled and adventure-starved. Why not kill something big and dangerous?

It's not cheap. The article estimates the cost of a guide at $2,000 to $10,000. That is on top of your airfare to Alaska.

You will stay in a drafty cabin roughly half the size of a taxi and dine on macaroni and cheese and instant coffee while your guide mentally calculates the money he has saved by not feeding you real food. The guide will have "your" bear spotted long before you arrive. He will have spent a few hours in a lawn chair with a spotting scope and, upon your arrival, will need only to lead you by the hand and show you how to aim and fire your shiny new rifle. Back in the cabin, you will toast the kill and the guide will tell you that you're one of the best hunters he's known.

Now, the great brown bear of Kodiak is not as formidable as it sounds. An eight-footer is about as good as you can expect. Not so long ago, you might have been able to get a 12-foot bear in your cross hairs, but hunters have been cropping the magnificent ones for so long that there are very few "monsters" left.

As for their celebrated ferocity, only one in a hundred Kodiaks is truly more inclined to fight than flee (they are considered the most retiring of the brown bears) and that will probably be a protective mother with cubs. Your target will most certainly be a rather puny bear quietly feeding on berries or salmon. After your ambush attack from several hundred yards away, it will lead you a not-so-merry chase through wet alder brush and swamps as it tries to outrun the searing pain that has suddenly replaced its otherwise placid existence.

There are other reasons to celebrate your manhood in more enlightened ways (like ethical reasons, but I risk pedantry). I therefore offer the following alternatives, any of which will allow you to spend money and exercise your masculinity at the same time.

Donate $2,000 to $10,000 to a scholarship fund. Earmark it for those who wish to study wildlife conservation. Or donate the same amount to the World Wildlife Fund or a similar group and earmark it for research and preservation efforts on bears, tropical rain forests, gorillas, whales, etc. Or sign on with Outward Bound and learn how to express your adventuresome spirit without killing or destroying something.

Hire a guide to lead you up the glacial crevasses of Mount Rainier. The cost will not be as impressive, but the inherent danger will certainly be greater than a bear hunt — but only to yourself.

Why not photograph bears? Caution: It can be risky, since you will be somewhat closer than is necessary with a rifle and this could trigger defensive behavior in your subject. I have been approached by Kodiak bears while photographing them. Although unscathed, I remain forever changed. Forget the guide.

The writer is an ecologist and wildlife biologist. He contributed this comment to The New York Times.

LETTERS TO THE EDITOR

One Man's Plan for Foiling Eventual Hostage-Takers

Dickering with terrorists over hostages, as over a piece of bazaar merchandise, has fallen to new depths of dishonor. Overlaying the family joy of a hostage coming home is a coat of shame so invidious that commentators shun the mention of it. Or perhaps the whole concept of shame is dead. Maybe we think we can no longer be held accountable as individuals, even for capitulating to the most cowardly demands.

Don't people have any moral imagination? We may be free from hostile hands but we will always be hostage to the knowledge that as we flew out to freedom a plane flew in to our captors and on that plane were weapons that may someday be waved in the faces of our trembling countrymen, perhaps in the same cells we once trembled in. Only the next time there will be more of them, and the time after that still more.

There is another way. Everybody, especially those who live abroad, should give thought to the possibility of being taken hostage. Americans must make the decision as individuals and as a society to refuse to be bargaining tools.

Before the event, from the rationality of safety, we should make it known to our families and friends that we in all respects forbid them to pressure our government to deal for us. There are worse fates than death, including being one step in the geometric growth of terrorist kidnapping.

We should recognize that at the moment of kidnapping we become prisoners of war. Like it or not, we have been drafted, and every grunt knows he might have to die to protect his countrymen.

I have resolved personally, and can only hope to have the courage, not to eat in captivity. Without food you can die in two months, less if you're lucky. I have explained all this to my family. If I find out that my mother has gone weeping to the White House, I'll be angry *and* hungry. It's just a suggestion, but everyone should consider it, like a living will, in advance. The kidnappers will have to dispose of the body, the big treasure all their big plans netted.

Also, Congress should pass a hostage care bill to provide military-style pension benefits to the family of a dead hostage. The bill should require insurance companies to treat a hostage's death by hunger as a covered death.

BOB COCHRANE.
Korat, Thailand.

Angolan Chronology

Reginald Herbold Green *(Letters, Nov. 11)*, criticizing my article on Angola *("The Goal in Angola Should Be a Coalition and Free Elections," Oct. 30)*, writes: "Only after independence, and the South African invasion, did Cuban troops arrive. This time sequence demolishes the case that it was the MPLA that prevented elections or started the war."

The assertion that the 1975 South African incursion occurred before the arrival of Cuban troops stems from the semi-official account of the Cuban expedition to Angola by Gabriel García Márquez. The Colombian novelist affirmed as factual Fidel Castro's claim that he decided to send troops to Angola in support of the MPLA only on Nov. 5, 1975, six days before independence and two months after the first South African troops had entered the country.

But we have another version from, among others, Cuba's deputy prime minister, Carlos Rafael Rodriguez, with details filled in by Wilfred Burchett, the late pro-Communist Australian journalist. In January 1976 Mr. Rodriguez said that Cuba sent 230 military advisers to Angola in May 1975. According to Mr. Burchett, "238 was the precise figure."

Thus the Cubans arrived four months before the South Africans and two months before the first American arms supplies to Jonas Savimbi's UNITA movement, which for the past decade has waged civil war against the MPLA.

In the context of the continuing UNITA-MPLA struggle, precisely which foreign weapons and armies came first to Angola is of basic significance. There may be good reasons why UNITA should be abandoned by Western social and liberal democrats, but it should not be on the basis of a spurious premise that conveniently salves the consciences of those who do the abandoning.

FRED BRIDGLAND.
Brussels.

Christian Sensitivities

Herblock twists the truth in his cartoon *(Nov. 10)* depicting parents criticizing a math teacher for using a math book instead of a Bible. Conservatives are not pressing for the Bible to be taught in public schools. They merely demand that their children not be forced to read texts which deprecate their religious upbringing. The sensitivities of Jews, blacks, Hispanics, atheists, Marxists and others are carefully considered, while those of Christians are ignored. Herblock should wake up to discrimination against Christians in America.

MICHAEL V. McCABE.
New Delhi.

Keep the Letters Coming

Having much enjoyed "The Last 3,000 Pen Pals" *(Postcard, Nov. 3)*, I should like to comfort the remaining few: Keep on writing!

At 14 years of age, in Texas, I wrote to Valéry Giscard d'Estaing asking whether he might know a "nice young French girl who would like to trade stamps and ideas." My letter was forwarded to the French postal authorities, and it later appeared in their magazine Messages. I received nearly 40 responses.

That was 12 years ago. I now live in France, work for a French company and, by the way, just happen to have married one of those pen friends.

My wife and I have pen friends, some of them in Eastern Europe, with whom we have corresponded for as long as 10 years. A letter is an invitation to an unknown land, a new culture — perhaps a place one will never see. It can keep surprising you even when reread many times. A letter is, quite simply, a gift.

GREGORY BORDELON.
Ivry-sur-Seine, France.

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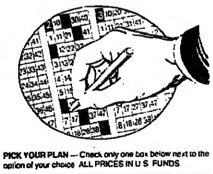

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Soldier-Diplomat Moves Up in Manila

Ileto Is Widely Expected to Exert a Calming Influence

By Barbara Crossette

New York Times Service

MANILA — Rafael M. Ileto, the new Philippines defense minister, has in many ways been preparing for the job all his professional life, according to those who know him.

It was Mr. Ileto, now a 66-year-old retired lieutenant general, who in the early 1950s organized and commanded ranger units that fought an earlier Communist insurgency, the Hukbalahap, or Huk, rebellion.

Military experts say Mr. Ileto is now in a position to again test, against a new generation of leftist guerrillas, his strategy of quick strikes by small units.

Mr. Ileto said Sunday: "The priority will be the unification of the armed forces, and then with the help of the people maybe we can solve this insurgency problem."

In the early 1970s, Mr. Ileto, by then a two-star general, balked at the imposition of martial law by President Ferdinand E. Marcos.

He was the only dissenter among military leaders, and his stand eventually led to his resignation from active duty and the beginning of a diplomatic career.

In 1975, he became ambassador to Iran, where he witnessed the fall of Shah Mohammed Reza Pahlavi.

Later, he was ambassador to Thailand, where a Communist insurgency was being defeated through a policy of force and persuasion.

In February, when Juan Ponce Enrile, the defense minister, and General Fidel V. Ramos, the armed forces chief of staff, broke with Mr. Marcos, it was Mr. Ileto, then ambassador to Thailand, whom both sides sought as a trusted intermediary, according to Cecilio T. Arillo, a journalist who wrote the book "Breakaway: The Inside Story of the Four-Day Revolution in the Philippines."

President Corazon C. Aquino made Mr. Ileto deputy defense minister shortly after she came to power in February.

"In hindsight," a diplomat said Sunday, "she may have been putting him in place to replace Enrile right from the start."

It is widely predicted that Mr. Ileto will be a calming influence after the stormy Enrile reign.

Rafael Ileto was born Oct. 24, 1920, in Nueva Ecija, in central Luzon.

He studied engineering at the University of the Philippines and then spent a year at the Philippine Military Academy before enrolling at the U.S. Military Academy at West Point, New York.

He graduated from West Point in 1943, when his country, still a U.S. colony, was occupied by the Japanese. He served with the U.S. Army in the Pacific theater, from New Guinea north to his homeland, in World War II.

In 1950, Mr. Ileto became an officer in the recently created Army of the Philippines, while simultaneously taking a law degree at the University of Manila.

He formed the Scout Rangers to fight insurgency and led them for five years until 1955.

He then served as military attaché in South Vietnam and Laos, where Communist movements were growing.

On his return to the Philippines in 1959, he became operations chief of the National Intelligence Coordinating Agency.

AP

Rafael M. Ileto

Mr. Ileto rose quickly to commanding general of northern Luzon, assistant chief of staff for intelligence, commanding general of the Philippine Army and deputy chief of staff.

The new defense minister is known among Filipino officers and diplomats for his professional approach to military service, an attitude he shares with General Ramos, who is also a West Point graduate.

MANILA: Enrile Is Replaced

(Continued from Page 1)

called off," a source said of the reported move against Mrs. Aquino. But he said there remained a possibility of further action by troops loyal to Mr. Enrile, together with groups loyal to the former president, Ferdinand E. Marcos.

Military and civilian sources said that General Ramos had for the third time this month blocked an aggressive move by Mr. Enrile's men. The threats, coupled with a several political killings, have presented Mrs. Aquino's government of nine months with a crisis.

Early Sunday, General Ramos issued a strongly worded order that affirmed his allegiance to Mrs. Aquino and appeared to signal an open break with Mr. Enrile.

The order outlined the threatened action and directed troops not to obey orders from the Defense Ministry or from Mr. Enrile's security chief, Colonel Gregorio Honasan.

"The new armed forces of the Philippines stands behind the government of President Aquino, having been elected and installed by the people," General Ramos said in his order, which was distributed to military commanders and shared with civilian officials.

He called on troops to follow the chain of command, starting with the president, and pleaded for military unity in the face of a continuing threat from Communist rebels.

Military sources said that at a tense meeting of commanders that lasted into the early morning, the dissident officers had agreed to avoid bloodshed and to hold off on their plan for the moment.

They said a personal plea by General Ramos blocked a move that had initially been scheduled for midnight.

In what appeared to be related developments, a Moslem ally of Mrs. Aquino was shot and killed Saturday in Manila, and soldiers rallied in support of Mr. Enrile in two southern cities. A colonel who led one of the rallies, in the city of Cebu, reportedly was placed under detention on Sunday.

In his message to the troops, General Ramos said he had learned that groups loyal to Mr. Marcos, "protected by certain military elements," planned to convene the National Assembly on Sunday and "put up a semblance of another government."

He said he had learned that they planned to declare that the February election, which helped to bring Mrs. Aquino to power, was void and to name the former speaker of the assembly, Nicanor Yniguez, as acting president.

■ Support in Washington

The Reagan administration expressed its "strong and unequivocal" support for Mrs. Aquino on Sunday, The Associated Press reported from Washington.

"We are pleased that this reported coup attempt failed," said Anita Stockman, a State Department spokesman. "We reiterate our strong and unequivocal support for President Aquino and her administration."

OIL: Saudis Said to Send Oil to Iran, Using U.S. Shippers

(Continued from Page 1)

rector of the Petroleum Industry Research Foundation, said, "There is a convergence of interest among Iran, Saudi Arabia and the United States on an $18 price."

He added that "Iran wants it the most desperately, because of the war" with Iraq, while the United States, an advocate of free markets, wants the $18 price because of concern about the weak state of the domestic oil industry.

Iran and Saudi Arabia have historically disagreed about oil prices. Iran has been at one extreme, favoring high prices, while Saudi Arabia was one of the strongest advocates of lower prices. Before the recent accord the Saudi Arabians had flooded the market with oil, and prices had plummeted below $10 a barrel.

But now, "the Saudis and Iranians have reached an agreement that covers oil, an understanding that extends to a broader geopolitical context, the Iran-Iraq war," said Bijan Mossavar-Rahmani, a former Iranian oil official.

■ Iran Said to Get Bargain

The price paid by the Iranians for 2,008 anti-tank missiles appears to be significantly lower than the usual price for the weapons, judging from the U.S. Army's testimony to Congress on weapons costs, The New York Times reported Saturday.

According to published reports of army testimony, over the last several years the missiles ought to have cost about $10,000 each. Supplying 2,008 of the anti-tank weapons, as reported Friday by Representative Jim Wright, the House majority leader, would cost about $20 million.

Along with the costs of spare parts and components for Hawk air-defense missile batteries, the main shipments to Iran would appear to be worth more than the $12 million that Mr. Wright said Iran paid.

One source familiar with the transactions said the Iranians had transferred the $12 million to a Swiss bank account, from where it was to be disbursed back to the Pentagon by the Central Intelligence Agency.

William J. Casey, the director of central intelligence, briefed closed-door Congressional hearings on Friday on the Iran program for the first time. The reaction from members of Congress who received the administration's detailed briefings was sharp and critical, even from Republicans.

Senator Robert C. Byrd, the Democratic leader, said, "I find on the basis of what I've heard, and I'm not saying what I've heard, that this whole operation, its genesis and the carrying out of it was incredibly clumsy and amateurish."

Senator Daniel Patrick Moynihan, Democrat of New York and a former member of the Intelligence Committee, who attended the briefing, said, "I can't believe what I heard, and I don't."

Senator Mitch McConnell, Republican of Kentucky, said "there was at least a technical violation of the law" on notifying Congress. "My counsel to the administration would be to call this one a mistake, and move on."

STAFF: Reagan Seen Under Pressure to Make Changes

(Continued from Page 1)

of how seriously Mr. Reagan's intimates viewed the damage caused by the revelation of the secret Iran operation.

At his news conference Wednesday, Mr. Reagan said he was "not firing anybody." He has refused to call the Iran arms shipments a mistake and said last week it was a worthwhile "high-risk gamble."

Mrs. Reagan was particularly upset with what she believed was sloppy preparation for the news conference, sources said. Mr. Reagan repeatedly erred when commenting on a crucial aspect of the Iran operation — the involvement of third countries.

The Californians have been calling themselves "the friends of Ronald Reagan," the name they used 20 years ago when they first organized behind Mr. Reagan's gubernatorial candidacy.

They include Holmes Tuttle, one of the earliest Reagan backers; William French Smith, a former U.S. attorney general; Lyn Nofziger, a former White House political director; Jacqueline Hume, a California industrialist; Mr. Meese and Mr. Clark.

Sources said William J. Casey, director of the Central Intelligence Agency, also was seeking changes, particularly the replacement of Mr. Shultz with Mr. Weinberger, the sources said.

"The consensus of the friends is that there need to be some changes," said a member of the group. "The concern is that too many members of the present team are more interested in protecting their own hindsight than in protecting the president."

Another source said the group felt the final two years of Mr. Reagan's presidency were at stake.

"It's headed south, fast," the source said. "Nancy saw the loss of the Senate, and that really shook her. And now all of this happening."

A source close to the president said Mr. Reagan has been privately critical of Mr. Shultz despite giving the secretary a vote of confidence in last week's news conference. The source said Mr. Reagan saw Mr. Shultz's appearance on a CBS News program Nov. 16 in which the secretary tried to distance himself from the Iran operation.

"The president saw what Shultz did to him on television last week," the source said. "He takes very seriously what he sees on television."

The Californians have been sharply critical of Mr. Regan, whom they believe has failed to defend the president adequately. One called Mr. Regan "totally incompetent."

Admiral Poindexter's loyalty to Mr. Reagan has not been questioned but, as one member of the group put it, "You could hardly ask Shultz and Regan to leave and keep the architect of the policy."

The sources said Mr. Weinberger would accept the post of secretary of state if asked by the president. However, according to a Pentagon spokesman, Mr. Weinberger dismissed reports of a possible shake-up by saying, "I certainly wouldn't recommend it" and there is "absolutely nothing to it."

Mr. Weinberger, like Mr. Shultz, originally opposed the Iran arms shipments, but since the disclosure he has defended the president.

On Friday, Mr. Regan said in an interview that he consistently supported President Reagan's secret dealings with Iran, still favors the policy and thought that the "jury is out" on whether it will be a success.

Mr. Regan also said that the president has expressed dissatisfaction with the many reports of bitter recriminations among his senior advisers about the arms sales to Iran, and added, "He'd just as soon that everybody shut up."

But that did not happen. Mr. Shultz confirmed Friday that he had participated in two "full-scale discussions" before the White House decision to send arms to Iran.

The acknowledgment that he participated in two meetings that thoroughly considered the Iran operation contrasted with a statement his spokesman read to reporters last week that said Mr. Shultz was "sporadically informed of some details" of the operation.

Mr. Shultz also said Friday that a report that he had asked the president to remove Admiral Poindexter was not true.

■ Dole Criticizes Shultz

Bob Dole, Republican of Kansas and the Senate minority leader, rebuked Mr. Shultz on Sunday for "not doing anything" to support President Reagan in the Iran controversy and he suggested that Mr. Reagan act quickly to "remove some of the problem."

Mr. Dole, after praising Mr. Shultz's past performance, said, "But I think right now they ought to circle the wagons; either that, or let a couple of the wagons go over the cliff."

A White House spokesman, Roman Popadiuk, said he had no information on reports that a group of presidential advisers were pushing for a high-level shake-up in Mr. Reagan's staff.

Other lawmakers also called Sunday for presidential action.

Senator Dale Bumpers, Democrat of Arkansas, said Mr. Reagan should admit to mistakes regarding Iran.

Senator David F. Durenberger, Republican of Minnesota, said Mr. Reagan must give "a visible sign that things will go differently in the future."

Henry A. Kissinger, a former secretary of state, said, "I am struck by the fact that in the crisis, the president is all alone on a parapet and almost none of his close associates are supporting not only not the tactics but not even the general philosophy of what he has attempted to do."

MOVE: Quietly, Pretoria Is Renewing Policy of Forced Relocation of Blacks

(Continued from Page 1)

lion blacks have been moved against their will to conform with race policies that decree where people may live according to the color of their skin and their ethnic descent.

The latest removals have some common strands. When the government said last year that it was suspending the policy of enforced removals, it left open the possibility of helping black communities that chose to be uprooted. Civil rights activists say that in some cases, such as Oukasie, the authorities have sought to create the impression of a voluntary removal by co-opting some blacks into their design and then presenting a minority view as the decision of an entire community.

Thus at Lethlabile, which is to be the new home of those removed from Oukasie, about 7,000 out of a population of 17,000 have settled in new homes of shiny tin, set in scrub like cheap jewelry in a tawdry setting.

There, on a recent visit at the start of a weekend, a resident called George Malefahlo invited a reporter to visit his home and explained that for the equivalent of $30, with subsequent monthly service charges of $3, a person might obtain tenure of a 400-square-yard (335-square-meter) plot on which to grow vegetables and build a home. In Oukasie, he said, there had been no such facilities as running water and waterborne sewerage like there were in Lethlabile.

Then he ruminated on the other problems. Lethlabile is 15 miles (24 kilometers) from the white town of Brits, where the jobs are, so people could not walk to work anymore and, in any event, the promises of a better life seemed ambiguous.

"This is only temporary," he said, gesturing to a house of zinc. It would, he said, "all change when we build a home of our own." He paused and added, as if vouchsafing a secret, "Where the money to build a house will come from, I don't know."

The small, sad stories seem to add up to a wider design intended to clear up the anomalies of apartheid. A reporter visiting several removal sites gained the impression that the policy had its own strands.

Here as in Oukasie, for instance, a black settlement had encroached on a segregated white area, prompting white fears and pressure on the authorities to move people away.

Additionally, the four places are all described by the authorities as crowded, unhygienic, and a hazard to health. Two of them — Langa and Lawaaikamp — are officially designated as squatter camps, places of rusting homes and improvised living.

Removal thus is presented by the authorities as a benevolent gesture to improve black lives. Yet in all four places, residents say that the authorities have made no effort to improve people's lives where they live, preferring instead to move them to more remote places.

Moreover, in this place, a white physician who toured the area, Dr. Luke Krige, declared in a subsequent report that the resettlement camp — known to residents as Tent Town — was "a time bomb."

There was, he said, "the very real possibility of a medical disaster with, for example, typhoid killing 30 people a day."

"No hygiene is possible," he said. "Medical care facilities are nonexistent."

The authorities say clinics and schools are to be built. Moreover, they insist that the removal was voluntary and that the settlement camp will soon become a model township.

The old squatter camp at Langa, in conformity with apartheid's logic, is to be rebuilt for people of mixed racial descent, classified in South Africa as coloreds.

But civil rights activists and those who have been moved assert that people from Langa were coerced into moving and that the authorities used their vast powers under the emergency decree to bring the move about.

Leaders of a Langa civic association were detained, for instance, breaking local resistance to the move to the tent town, which is not within walking distance of either the job lines of Uitenhage or the town's racially segregated hospital.

With the leaders removed, residents said, the authorities toured Langa with bullhorns, saying a move was imminent. They said they were told that they should pull down their homes so the materials could be moved across town to the hillside, once a white-owned farm, to which they were being moved.

"They came and said we should go," said Elsie Jantjies, 45. "They sent a truck to take our building materials and we moved. We did not want to."

Gunmen Hijack Copter, Free 2 From Rome Jail

The Associated Press

ROME — Two gunmen hijacked a Red Cross helicopter and pilot from a hospital on Sunday, lifted two inmates from a courtyard in Rebibbia prison here and flew off in a hail of gunfire, the police said. A third prisoner ran to the helicopter but slipped in the rain.

The hijackers, who spoke French, forced the pilot to land in a soccer field, where the hijackers and escapees commandeered a passing car and fled, the authorities said. Officials said one of the escapees, a Tunisian, was sought by French authorities for a bank robbery and murder and the other was suspected of supplying arms to Italian terrorists.

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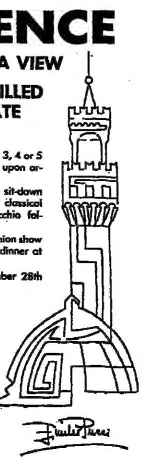

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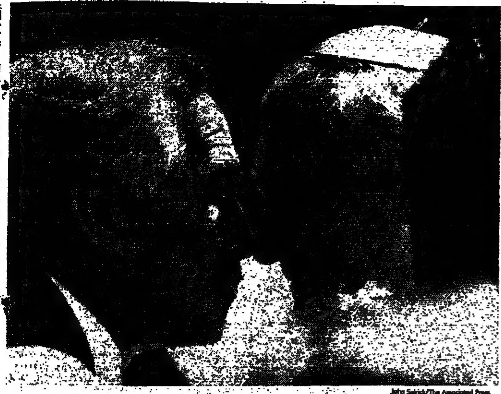

John Selrick/The Associated Press
Monita Delamere, a Maori leader, rubs noses in a traditional greeting to Pope John Paul II.

Maoris Pull Pope Into a Controversy

'Tribal Revival' Becomes Centerpiece of New Zealand Visit

By Robert Suro
New York Times Service

AUCKLAND, New Zealand — Maori tribesmen made a powerful political statement this weekend by rubbing noses with Pope John Paul II.

The gestures came Saturday during a ceremony designed both to welcome the pope and to promote the "Maori renaissance," a drive for increased cultural autonomy and political power.

The ceremony drew John Paul into a controversy about the Maori revival both in the way it was staged and because Maori Catholics have asked the pope to make one of their own a bishop.

The Maoris had successfully demanded that their welcome be the first event after a pro forma airport greeting by national officials, that those officials watch from the side while only Maoris sat on the dais with the pope, and that the trip should be officially known as the pope's visit to Aotearoa, the Maori name for New Zealand.

"We had a very clear agenda for this event," said Manuka Henare, a senior church official on the committee for the Maori welcoming. "There were things we wanted to say, things we wanted to ask for. We wanted to make our presence known."

The Maori welcome in Auckland was the first public event of the pope's visit to New Zealand. The role of native cultures in modern societies is perhaps the most delicate issue the pope is facing on his two-week journey through Asia and the Pacific.

The issue came up in his last stop, Fiji, where the native islanders and a large population of Indian descent live amid ethnic tension. He will face it again in Australia, his next destination, where he will address a gathering of aborigines.

So far, the pope has avoided commenting directly on local controversies.

After some traditional songs and welcoming speeches, several Maori chieftains presented John Paul with presents and gave him the *hongi*, a greeting accomplished by lightly pressing noses together.

The Maoris, who make up 9 percent of New Zealand's 3.3 million inhabitants, have poured into the cities over the last 40 years looking for work. Maori leaders acknowledge the move to an urban environment has contributed to social problems in addition to a breakdown of the tribal culture.

In a history of Roman Catholicism in New Zealand written for the papal visit, the Reverend Ernest Simmons, chancellor of the Diocese of Auckland, said that after the Maoris began asserting their rights, "it was no longer possible to forget that New Zealand is a multicultural and multiracial society."

John Paul already knew of the Maoris' desire for a bishop even though there are only 10 Maori priests. A delegation presented him with the request in Rome a month ago.

■ Mass in Wellington

The Pope said at a Mass in Wellington on Sunday that the world needs leaders with the courage to look beyond "ideologies, narrow interests and purely political ends" in the interest of all humanity, The Associated Press reported.

Peace was the theme of two speeches John Paul delivered on the second day of the 48-hour visit to New Zealand.

Sparse crowds lined the streets of the pope's motorcade route on a windy, gray day in Wellington, but an enthusiastic crowd estimated at 25,000, including many Polish immigrants, cheered the Polish-born pontiff when he entered a stadium to celebrate an open-air Mass.

Earlier, in a speech to diplomats, the pope said "we would be naive to think that all conflicts and disagreements will be abolished. But may we not hope for wise and humane leaders who have the courage to transcend ideologies, narrow interests and purely political ends, and who are willing to bear witness to the unity of mankind?"

The New Zealand Times said some church leaders were disappointed at the size of the crowds greeting the pope and that the turnout of 50,000 in Auckland on Saturday was half of what had been expected. About 14 percent of New Zealand's 3.2 million people are Catholics.

The pope met Sunday for 20 minutes with Prime Minister David Lange.

IRA Mortars Injure Soldiers

United Press International

BELFAST — Five British soldiers were slightly injured Sunday when the Irish Republican Army fired mortars at a joint army and police post in Middletown, Northern Ireland, from across the border in Ireland, the police said.

Sydney Trial Tests Thatcher, U.K. Concept of Secrecy

By Karen DeYoung
Washington Post Service

LONDON — A trial in Sydney has dredged up 20-year-old allegations that the former head of Britain's domestic counterintelligence agency, MI5, was a Soviet mole and has plunged Prime Minister Margaret Thatcher into another political controversy.

The case, now before the Supreme Court of New South Wales, has placed on trial the concept of official secrecy.

In Britain, the government has nearly unlimited rights to keep its secrets. In the Australian courtroom, Britain is seeking to extend that right to cover all of its employees throughout their lives, no matter where they may be.

Britain wants a permanent injunction against the Australian publication of a book by Peter Wright, 71, the former head of the internal division of MI5 that seeks out spies.

According to the Australian media and portions of Mr. Wright's manuscript that have been read in closed sessions of Parliament here, its principal charge is that Sir Roger Hollis, the head of MI5 during the 1960s, was a Soviet mole.

Britain has contended that information in the book would damage national security and that it must be suppressed to retain the confidence of other intelligence services, including the U.S. Central Intelligence Agency.

Mr. Wright's book was banned from publication in Britain. But he has pointed out that much of what is in it already has appeared in print here in two books published in the early 1980s. The government, Mr. Wright alleged, made no effort to stop those books and may in fact have encouraged them as a way of airing the Hollis story, which had long been rumored.

AP
Roger Hollis

Both Mr. Wright and the author of one of those books, Chapman Pincher, a British journalist, have acknowledged that Mr. Wright was one of Mr. Pincher's main sources of information.

The second book was written, under the name of Nigel West, by Rupert Allason, the son of a former member of Parliament from Mrs. Thatcher's Conservative Party.

Asked by the court why it did not move to stop the earlier books if the information was dangerous, the government has provided little answer. It has pointed out that a book under Mr. Wright's name is different. While the government has only limited control over authors, even if their sources are intelligence agents, it has ruled that the agents themselves must not publish.

Government lawyers have told the court that every public servant is bound by a lifelong duty to keep his government work confidential. Mr. Wright's book, therefore, is a breach of contract.

"It's the sheer principle of the thing," said a British official. He expressed the fear that loss of the case would encourage would-be authors from inside the intelligence community to publish their manuscripts abroad.

Mr. Wright's Australian lawyer, Malcolm Turnbull, told the court the idea that such restrictions were necessary to retain CIA trust was ludicrous.

"Since 1978," Mr. Turnbull said Wednesday, "the CIA manuscript review board has reviewed 400 manuscripts by 200 authors, only four of whom were not employed by the agency. All were cleared, in part or all. Would the CIA really think less of MI5 for applying the same standards for its own offices as the CIA applies to its?"

Mr. Wright, who retired several years ago to live in Tasmania, has asked the court to rule that he and his book are beyond the reach of British law.

Although Sir Roger was cleared of suspicion by a secret government commission in 1974, the year after his death, the Australian case has reopened wounds here that go back to the era of two major British spy scandals — the defections to Moscow in 1951 of two Foreign Office officials, Guy Burgess and Donald McLean, and of an intelligence officer, Kim Philby, in 1963.

The cases led many allies to conclude that Britain could not be trusted with the West's secrets.

In 1981, when the allegations about Sir Roger first were published here by Mr. Pincher, Mrs. Thatcher vouched for his innocence in a statement to Parliament.

A substantial body of British opinion believes that Mr. Wright, one of a group of "Young Turks" in MI5 who first suspected Sir Roger in the 1960s, is obsessed with proving him guilty, despite evidence to the contrary.

But Mrs. Thatcher's five-year-old statement about Sir Roger has come back to haunt her. It has been thrown into stark relief by her refusal to talk about the Australian case, despite increasingly loud demands by her political opponents that she explain some of the issues that have been raised in the court.

Although the official plaintiff in the case is the British attorney general, Michael Havers, Mrs. Thatcher has sent her chief adviser on the security services, Robert Armstrong, to Australia as her government's chief witness.

The presiding justice, Philip Powell, accused the British government of "shooting itself in the foot" because of Mr. Armstrong's reluctance on the witness stand to address even the most mundane defense questions.

Mr. Armstrong refused even to acknowledge the existence of MI5's sister organization, the Secret Intelligence Service, or MI6, more equivalent to the CIA.

In response to a question about the service from the defense, the British counsel, Theo Simos, objected that although "everyone knows" that MI6 exists, for Mr. Armstrong to say so would make him the first government official to acknowledge it.

After Mr. Armstrong compromised by referring to MI6 as "the other place," to distinguish it from MI5, the defense accused him of reducing the court to "a fine farce."

2 Waterworks on the Rhine Are Ordered Closed

The Associated Press

LUDWIGSHAFEN, West Germany — Two West German states have ordered waterworks that draw from the Rhine to close, saying a new leak of chemicals into the river posed a more serious hazard than was at first thought.

Environmental officials in the states of North Rhine-Westphalia and Rhineland-Palatinate took the step Saturday after discovering that a toxic herbicide, dichlorphenoxy acetic acid, was in the Rhine in concentrations up to a thousand times the level considered safe for drinking water.

The substance leaked from the BASF AG chemical plant near Ludwigshafen on Friday morning.

Most cities along the Rhine will still have drinking water because they have other sources available, the authorities said. No illness related to the spill has been reported.

BASF officials acknowledged Saturday that 520 gallons (1,970 liters) of the herbicide had leaked into the river, nearly twice the amount they had announced Friday.

West Germany's federal Health Ministry is also investigating to see whether any other toxic chemicals, including dioxin, had been leaked, according to a statement from the Environmental Ministry for Rhineland-Palatinate in Mainz. It did not explain why dioxin was suspected.

The statement said that dichlorphenoxy acetic acid was considered "of minor toxicity for human beings."

A spokesman for BASF, Lothar Jakob, denied that other chemicals had leaked into the Rhine.

"There are no indications that this happened," he said.

State officials in Hesse said Saturday that a chemical leak also had occurred on the Main River at Frankfurt.

Up to 13 gallons of chlorbenzol, a solvent, apparently leaked from a factory of Hoechst AG, the chemical concern, into a rainwater canal and into the river, according to Georg Dick, a spokesman for the state Environmental Ministry in Hesse.

He said the spill was not announced by the company and was discovered by an environmental group that monitors conditions in the river.

■ New Leak in Switzerland

Toxic phosgene gas leaked from a factory in the fourth accident at a Swiss chemical plant since Oct. 31, according to police in the northern canton of Aargau, Reuters reported from Aarau, Switzerland.

Police and chemical experts said traces of the the colorless gas were found, but no further than 20 yards from the plant, owned by Siegfried AG. There was no danger to residents in the area, they said.

The leak followed a major chemical fire at Sandoz AG on Nov. 1 that released gas and severely polluted the Rhine River with 30 tons of mercury, pesticides and other toxins.

A few days later, Ciba-Geigy AG said it had released 880 pounds (400 kilograms) of the pesticide Atrazine into the Rhine on Oct. 31.

An accident at another Ciba-Geigy plant sent a cloud of noxious fumes over Basel on Thursday.

Melilla Moslems Protest Alien Law

United Press International

MELILLA, Spain — Thousands of Moslems marched through Melilla, a Spanish enclave on the Moroccan coast, on Saturday to demand permanent-residency status from Madrid.

Only 7,000 of the 27,000 Moslems of Moroccan descent who live in Melilla are Spanish citizens.

Spain's Socialist government pledged in February to carry out measures to speed up the issuance of residency permits but Moslem leaders say the government has not carried out its promise.

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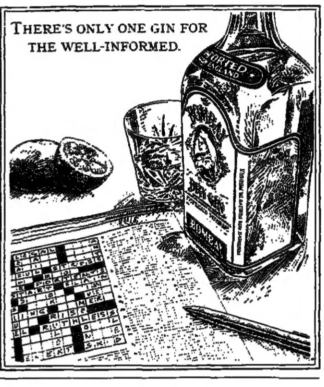

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$	100	Australia	11¼	'90 May	115⅝	9.14		9.71
$	25	Alcan Australia	8½	'89 Apr	100½	8.22		8.46
$	60	Alcoa Of Australia	10	'89 Jun	100¾	9.61		9.93
$	80	Alcoa Of Australia	11	'92 Jul	106⅛	9.58		10.35
$	75	Australian Ind Dev Co	11	'89 Feb	106¾	7.52		10.30
$	35	Austrosewiss	8	'87 Jul	99⅝	8.30	8.30	8.02
$	30	Broken Hill Pty	8¾	'89 Apr	100	8.77	8.79	8.55
$	150	Broken Hill Pty	14⅝	'89 May	104¾	12.31		14.00
$	100	Broken Hill Pty	12	'90 Jan	105¼	9.96		11.40
$	20	Broken Hill Pty	10	'90 May	101	9.61	9.55	9.90
$	150	Broken Hill Pty	10	'92 Dec	106	8.68		9.43
$	40	Comalco Invest Europe	10⅛	'91 Jul	101	9.34	9.84	10.15
$	100	Commonwealth Bk Austr	12⅝	'89 Nov	113¼	7.22		10.93
$	100	Commonwealth Bk Austr	10	'93 Nov	107⅛	8.72		9.34
$	75	Csr Limited	16	'89 Jul	117½	8.32		13.62
$	100	Mount Isa Finance	13⅝	'87 Jul	105⅛	5.45		13.00
$	100	Mount Isa Finance	11	'95 Dec	110	9.31		10.00
$	50	National Austr Bank	11¼	'90 Apr	110	7.74		10.22
$	140	Qantas Airways	10⅝	'95 Jul	117¾	8.30		9.20
$	97	Qantas Airways	8⅝	'96 Mar	101½	8.37		8.50
$	100	Queensland	11⅝	'89 Dec	110⅝	7.30		10.26
$	100	Queensland	8	'91 Jun	101½	7.60		7.91
$	100	Queensland	10⅛	'95 Aug	110⅛	8.53		9.20
$	50	Rural Industries Bank	12	'91 Feb	113	8.22		10.62
$	100	South Austr Gover Fin	8⅝	'93 Mar	102½	8.71		8.54
$	100	State Bk New S Wales	11⅜	'98 Jun	109¾	8.22		10.41
$	100	State Bk South Austr	10¼	'92 Feb	109⅛	7.90		9.34
$	100	State Bk South Austr	[illegible]	'93 Feb	[illegible]	[illegible]		[illegible]

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Monday, November 24, 1986 International Herald Tribune Special Financial Report Part I

The Euromarkets

U.S. Tied To Foreign Investors

By John M. Berry

WASHINGTON — Foreign capital flows into the United States may have reached their peak if the U.S. trade and current account deficits soon begin to decline as many analysts expect.

Beryl Sprinkel, chairman of President Ronald Reagan's Council of Economic Advisers, recently said that the nation's merchandise trade deficit could drop in 1987 by as much as $40 billion from this year's estimated $170 billion. A number of other economists foresee *a smaller but still significant reduction of $20* billion to $30 billion.

But the current account deficit, which is what must be financed with foreign capital, would likely still be close to $110 billion in 1987 even if the gain on the trade front turned out to be as large as Mr. Sprinkel's prediction. With less of an improvement on trade, the current account *deficit could* be close *to* the $126-billion figure currently estimated by Data Resources, Inc., an economic consulting and forecasting firm.


NYT
Volcker

In any event, the dependence of borrowers in U.S. credit markets on foreign investors is going to remain high for years to come. In the first half of 1986, that dependence was unprecedented, with foreigners providing funds to U.S. credit markets alone at a $110-billion seasonally adjusted annual rate.

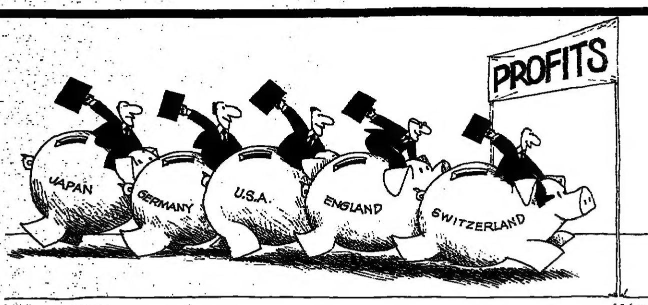
The willingness of foreigners to invest in the United States has surprised most analysts, especially given the volatile history of exchange rates in recent years. Some government policymakers, including Federal Reserve Chairman Paul A. Volcker, remain concerned that that willingness will erode.

At that point, with the trade and current account deficits still high, interest rates would have to rise, perhaps sharply, to draw in the needed foreign funds, the officials say.

In congressional testimony this fall, Mr. Volcker described some of the "two-sided" adjustments that will have to be made.

"The United States, if it is to reduce its trade deficit substantially, must be prepared, in relative terms, to reduce the rate of growth in domestic consumption in favor of the external

Continued on page 11



S. Redinger

Battle to Manage Issues Intensifies

By Kevin Muehring

LONDON — Lead manager Morgan Stanley was still in the midst of inviting co-managers to syndicate its $300-million, five-year fixed/float convertible issue for Denmark in late October when it was hit with a flood of short sales. Within 25 minutes, a quarter of the deal, or about $75 million, was sold back to the lead manager before syndication began.

The banks that sold short — selling a security before its launch against the lead manager's support bid on the assumption the security could later be purchased at a lower price in the market — saw on their screens an issue price of 101.75 and a 7¾-percent coupon to yield a skimpy 40 basis points over treasuries. That was 35 basis points under the price for similar seasoned issues, and it looked like yet another new issue by a new manager anxious to win a mandate with mispricing.

But the short sellers moved in before the full details of the deal were known: it included an option giving the holder the right to convert the fixed-rate paper on Feb. 12, 1987, into a noncallable floating-rate note due December 1988, paying six-month Libid flat.

While there was some debate whether the option was still worth the fine terms, the point was moot. Incensed that other underwriters would move in so quickly to sabotage its deal, Morgan Stanley set up a "bear squeeze" in which it holds the bonds from the market, forcing short sellers to cover their sales by buying from the lead manager at a hefty premium.

Ten co-managers were brought in to the deal but for allotments of just $400,000 each. Morgan Stanley sat on the rest and jacked the price of the bonds to a premium of 108. Attempts to flush paper out failed as Morgan kept all but a few scraps under its control. The losses incurred by the shorters looked to reach $6 million or more, with at least one of the short sellers holding paper losses of at least $2 million.

The Morgan-led Denmark issue was easily one of the more controversial, if not bloodied issues in the fixed-rate sector of the Eurobond market in 1986. But it graphically underscored just how ruthless the market has become: Co-managers, more than ever, have been less reluctant to dump in the grey market or to short deals against their lead manager's bid, or to simply decline any participation at all. Lead managers have been equally less shy about squeezing the short sellers or in not supporting their own issues in the grey market.

This virtual warfare among managers in the primary end of the Eurobond market that has come into the open over the last six months is altering the way bonds are being distributed. Increasingly, the only way to make money is to lead the issues, but it means assuming increasing levels of risk as more co-managers back out of deals. Perhaps inevitably, the trend is toward smaller, more powerful syndicates.

The reason for the syndicate infighting is simple: competition. The roaring success of the Eurobond market of the last two years in becoming the global center for raising capital, is bringing more financial institutions into the field. The disintermediation of bank assets in the process of securitization, for instance, is forcing most commercial banks to make a push into the capital markets.

"There are 60 firms in a market large enough for only 10," noted Peter Luthy, the syndicate manager at Shearson Lehman Brothers International.

Another factor is the increasing transactional nature of the market. Issuers are less fussy about the performance of their bonds than they are about their all-in costs.

The bedrock of the investor base is still the retail end investor who tends to buy and hold his bonds, but more than ever, it is the professional institutional money manager, looking more for price and liquidity than names and yields, who is setting the pace and tone in the market.

Another is the realization that the only way to make any money as an underwriter is to lead manage an issue. In a sense, it is the culmination of a trend that has been gaining momentum since 1980. As competition for lead mandates cut toward tighter fees, the average price of new issues has been successively driven below the break-even point of each sub-participating group.

The first to go were the selling group members who could not make any money by coming in on deals solely for the 1¼-percent selling concession.

The next to go were the underwriters, who by 1982 could not make any money at less than 1⅝-percent. Now, if an issue is trading within ⅛ percent of the average 1⅞ percent commissions, it is hailed as a successfully priced issue. But it also means that no one but the lead

Continued on page 11

KEVIN MUEHRING is a London-based contributing editor to Institutional Investor magazine.

Deregulation Spurs Global Revolution

By Carl Gewirtz

PARIS — Two decades of failed official *efforts to control* the offshore financial activities of banks operating in the Euromarket have given way to a view "if you can't beat them, join them."

Domestic regulations on interest rates and currencies have been relaxed or abandoned, as have the restrictions on the kinds of business, domestic as well as foreign, that institutions can engage in.

In part this deregulation was in response to purely national considerations. Banks worldwide were weakened by the Third World debt crisis and needed new latitude to build up profits. It was also in part driven by the hope that, once the domestic distortions that had driven business offshore were eliminated, the business would come home.

But thanks to a concurrent revolution in the design and cost of computers and communications — providing instant and cheap processing, storage and sharing of information — the deregulated national arenas have become integrated into one global financial market.

A global market whose capacity to innovate appears to be limited only by the present inexperience to master the full potential of the technology.

More important, it is a global market that continues to elude the watchful eye that supervisors think necessary.

The worries about the Euromarket's uncontrolled credit expansion that once vexed banking supervisors pale by comparison to today's litany of fears about the global market.

In essence, these boil down to a concern that there has been a quantum leap in risk for the international financial system, for the banks and securities houses that are its backbone and for the customers, due to the explosion in innovative debt financing.

Deregulation, globalization and innovation are "radically transforming our financial landscape," said Alexandre Lamfalussy, general manager of the Basel-based Bank for International Settlements, the bank for central bankers.

There is no blueprint, no clear idea what will emerge from this transformation, only the *knowledge that banking and finance* will be radically different from what the world has known since the end of World War II.

Ultimately, about a dozen financial supermarkets are expected to dominate the international scene while the less successful will be left to run boutiques — very specialized, probably very profitable but also very small service operations.

None of the survivors, including the global giants, will be competing to attract customer deposits as banks have done over the past four decades. The concept of banks as a depot for the storage of money, which is already fading, will disappear as clients who were once depositors increasingly become traders.

The legacy of double-digit inflation has sensitized depositors to look for better returns on their money than savings and checking accounts, depriving banks of their low-cost funding, rendering branch banking a cost-heavy white elephant and driving banks to look for other sources of income.

Cash that was once deposited with banks now is placed in money-market instruments — bank certificates of deposit, corporate commercial paper, government-issued notes — always seeking the highest return commensurate with the credit risk depositors are willing to accept.

Debts are being managed with the same aggressiveness — hedged or swapped into different currencies or from fixed rate to floating rate or vice versa.

In short, it's a world where everyone is a trader and where financial intermediaries make their profits managing money, finding money and trading money rather than simply providing money in the form of credit.

"When you deregulate interest rates, currencies and access to the international capital market and superimpose a communications system which permits people to have instant access to what's going on, then national governments will find that they have less control than they had before," observed Eugene H. Rotberg, treasurer of the World Bank.

"That's apparently why they did deregulate," he added. "They wanted to have free flow of capital with lesser not more regulation. When you superimpose that on national banking systems that have different regulatory controls, different accounting and tax systems, you're going to get some results that, in my view, were to be anticipated but were not predicted."

Clearly one such result is the exodus from the banks of their highest quality-lowest risk clients who nowadays are able to raise money much more cheaply through the sale of debt securities.

Today, banks generate income either by taking on more risky business that cannot be

Continued on page 10

CARL GEWIRTZ, associate editor of the International Herald Tribune, writes a weekly column on the Eurobond market.

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New Flexible Financing Eclipses Classic Bank Lending

Ekkehard Storck

By Edward Roby

FRANKFURT — The Euromarket that mushroomed a decade ago with the recycling of petrodollars seems to be stabilizing again at modest levels after three years of turmoil that began with the sovereign debt crisis. But many of the former market participants are gone and familiar features like the standard rollover credit may never regain their former prominence.

The extent of the structural change in the international financial market is reflected in the pronounced shift in banking away from book lending and toward off-balance sheet business. Frank Heintzeler, who coordinates the investment banking activities of Deutsche Bank, said that standard lending, which accounted for two-thirds of all financing activities through the international credit and capital markets at the start of the 1980s, had shrunk in market share to around 10 percent or 15 percent last year. At the same time, the volume of Euro-issuing activity has quadrupled since 1981.

The liberalization of domestic financial markets, the integration of money, capital and credit markets, the trend toward global financing and the supremacy of the international capital market prompted Mr. Heintzeler to characterize the 1980s as the "decade of investment banking."

Customer demand for more flexible financing options has challenged the imagination of bankers and given rise in centers like London to a variety of new instruments like revolving underwriting facilities (RUFs) and note issuance facilities (NIFs) that combine the features of the credit, capital and money markets. Even in Luxembourg, where traditional Euro-lending still dominates in terms of assets, practically all the foreign banks have diversified their business in recent years, said Volcker Burghagen, director-general of Dresdner Bank's Luxembourg unit.

In addition to a strong push into private banking, this diversification has included securities and currency trading, swaps, futures and an expanding interbank business. The Luxembourg Eurobanks cannot challenge London in the investment banking field, said Mr. Burghagen, but "we can offer a little financial engineering.

"The Luxembourg banks have an opportunity to develop a somewhat more sophisticated lending business," he said.

Commercial paper programs and financing packages are two expanding activities in which traditional Eurocredit has a potentially important role to play, said Ekkehard Storck, director-general of Luxembourg's market-leading Deutsche Bank unit.

The volume in new commercial paper issues, in which the risk is transferred directly from issuer to investor, has more than doubled this year, from $17.2 billion in 1985, because banking oversight authorities in Japan and Britain have now included underwriting and backup obligations associated with RUFs and NIFs in banking equity ratios, making such facilities more expensive. In view of the higher fees, volume in Euronote activities was down 7.4 percent in the first eight months of this year. Demand for financing packages of diverse instruments, including traditional Eurocredit that is not dependent on the prevailing market for commercial paper or Euronotes, has risen for the same reason, Mr. Storck said.

The demand for Eurocredit as a standby line for Euro-commercial paper programs, he said, suggests that Euro-lending will remain an indispensable feature of the international financial markets. Another potential boost for Euro-lending could come if changing market conditions prompt borrowers to convert securitized debt into standard long-term credit.

In the meantime, the problem-debtor countries have virtually dropped out of the Euromarket, the industrial countries, international institutions and multinational companies are raising money on the capital markets and the countries of the East bloc have emerged as the steadiest clientele for syndicated Euro-lending, bankers said.

The East bloc countries are currently the main group of borrowers in the market offering the banks acceptable risks and reasonable margins, Mr. Burghagen said. A possible reason why these countries have remained loyal to the Euromarket is that they do not wish to make the kind of public disclosures that would be required in capital market financing. Last year, for example, this group of borrowers nearly doubled its market share in consortial credit to 11 percent.

Figures provided by the Organization for Economic Cooperation and Development in Paris suggest that the decline in traditional syndicated lending may be bottoming out, although the growth of the capital market continues unabated. New funds raised through internationally syndicated loans fell to $42 billion last year from $57 billion in 1984 and $67.2 billion in 1983. The total for 1986, based on an annualized projection from the first three quarters, would be $40.1 billion. But lumping loans and bonds together, total international financing climbed steadily from $153.8 billion in 1983 to $256.5 billion, and a level of $298.3 billion was projected for this year.

Mr. Burghagen said the actual decline in consortial Euro-lending would have been even more dramatic were it not for the takeover loans to finance mergers in the United States, mostly in the petroleum industry. He also ruled out prospects for a revival anytime soon.

The situation has created a highly liquid market in which the banks are forced to compete for the business of the few eligible borrowers at very thin margins.

Despite their heavy reliance on the depressed Euro-lending business, the foreign banks in Luxembourg have been able to sustain, by and large, high earnings over the past few years. But Mr. Burghagen said, "I tend to think 1987 will not be as good."

Some sources of profitability on the funding side are now drying up.

The stock market boom, which yielded handsome commissions and profits from trading on the banks' own accounts, has fizzled. And the short-term, fixed-interest bonds that proved a bonanza when interest rates fell are now coming up for redemption.

For the current year, Mr. Burghagen said his bank will "almost match" its record 1985 operating earnings of 280 million Deutsche marks ($140 million). And Mr. Storck said his bank expects to top its record 300-million Deutsche-mark operating profit posted last year, although he said he has heard that some other Eurobanks will have to settle for lower earnings.

Even so, the profitability of the banks in Luxembourg has been so extraordinary recently that earnings would remain respectable even at reduced levels, Mr. Burghagen said. With a pace-setting contingent of 30 West German banks, Luxembourg remains the hub of Euro-Deutsche-mark activities and is holding its own as the No. 3 European financial center, with close to a 10-percent market share.

On Jan. 1, the Grand Duchy plans to abolish its *taxe d'abonnement*, a 0.36-percent levy on bond issues, in a move that could breathe new life into the capital market issuing business. This will affect not only bonds but certificates of deposit and the certificates of indebtedness called *Schuldscheine*.

"It means we can issue from Luxembourg," Mr. Burghagen said. "I'm curious to see how it works out."

Mr. Storck said his bank would start issuing in its own name directly from Luxembourg and that the volume would be considerable. Along with the diversification moves, a revival of the issuing business would obviously help the banks compensate for the slump in the Euro-credit market. But only an economic upswing and the rehabilitation of the problem-debtor countries to creditworthiness could restore syndicated Euro-lending to its former levels.

"The dominance of mid- and long-term financing through rollover credit will never come again," Mr. Burghagen said. "That's a bit outdated."

EDWARD ROBY is the Bonn bureau chief of United Press International.

Zurich: Sense of Anxiety Prevails

Doerig

By David Tinnin

ZURICH — Switzerland's premier financial center is heading toward yet another successful year. Aside from the bourse, which has turned decidedly sluggish, Zurich's other key indicators of economic vigor are favorable.

So far this year, the city has buttressed its already strong position as one of the world's prime suppliers of long-term credit. Through direct loans and discreet private placements, it has provided to foreign clients 39.7 billion Swiss francs ($24 billion) in new assets.

At the same time, scores of foreign entities, ranging from Walt Disney to the Commonwealth of Australia and the Tokyo Electric Co., raised 24.7 billion Swiss francs in new issues on Switzerland's exchanges. Meanwhile, Swiss companies floated stock worth another 25 billion Swiss francs.

Despite the robust performance, a sense of anxiety is gripping Zurich. Many financiers are concerned that despite Zurich's continued successes, its importance as a financial center has diminished. They point to Zurich's failure to develop into a key center of Euromarket activity.

For the future, many bankers worry that fast-breaking trends in globalized banking will simply pass Zurich by. "The financial world is now constructed around three centers, New York, Tokyo and London," said Fritz Rieder, a senior vice president at Swiss Bank Corp. "We have to make sure we do not get left out."

Zurich got left out in the reshuffling of global financial centers that came in the wake of the oil shock of 1973-1974. The explosion of oil profits spurred the growth of the Euromarket as a means of recycling petrodollars into investment. Just as this huge business was being born, Swiss fiscal authorities in effect put Zurich out of play by imposing a turnover tax of 0.3 percent of value (300 basis points) on new financial instruments issued from Switzerland.

In the absence of a bid from Zurich, the Euromarket settled in London. Unable to compete at home, big Swiss banks moved their Eurobond business to London.

Credit Suisse-First Boston, the underwriting arm of the Zurich bank, consistently ranks No. 1 among the lead managers of Eurobond syndications. "We make the profits in London rather than in Zurich," remarked Hans Mast, the former chief economist at Crédit Suisse.

Zurich's main role in the Euromarket simply is that of a prosperous and consistent buyer. Because Zurich banks hold about 220 billion Swiss francs in managed portfolios, they purchase 30 percent to 40 percent of all new Eurobond issues, according to some estimates.

For years, Swiss bankers have been arguing for an abolition of the turnover tax. In September, federal regulatory authorities adopted a few measures intended to restore Swiss financial competitiveness. A 6-percent sales tax on gold, which had virtually eliminated Zurich as a leading gold market, was dropped, and, indeed, Zurich is making a gradual recovery.

Most importantly, the turnover tax on new issues was cut by half to 150 basis points. However, with today's razor-thin margins, the reduction was no help — with no taxes, London remains cheaper.

Swiss bankers see other problems ahead. *The first is the downtrend in portfolio accounts* held by very wealthy individuals and managed at the bank's discretion.

The other potentially harmful trend is that of securization, which means raising funds through selling "securities" rather than taking out a regular bank loan.

Many Swiss bankers see no alternative but to locate more and more of their facilities abroad. For his part, Hans-Ulrich Doerig, a board member at Crédit Suisse, insists that "Zurich must keep the banking services it still holds and try to add on to them."

DAVID TINNIN is a financial journalist based in Geneva.

ECU Bonds: 'Victims of Their Success'

By Giles Merritt

BRUSSELS — "No financial instrument can keep on growing at 200 percent a year," said André Swings, general manager of the Kredietbank of Belgium, "so I guess you could say that ECU-dominated Eurobonds have taken off and have for the time being reached a cruising altitude."

Mr. Swings is one of the founders of the Eurobond, and he has no doubt that the lull in its popularity in the last six months is only temporary. He foresees a number of political developments in Europe that will again boost interest in bonds denominated in European Currency Units, the national EC settlements device that is made up of a composite "basket" of 10 national currencies.

The slackening in ECU Eurobond business, it should be stressed, is only in relation to other types of Eurobond. The value of ECU bond issues outstanding has in the past year almost doubled, rising from 16 billion units to over 30 billion units.

In just over five years, since the first ECU Eurobond was floated in the spring of 1981, some 300 bond issues have been made in ECUs. The advantages of denominating a Eurobond in European Currency Units are becoming clear to a growing number of multinational corporations, and at the same time, New York financial institutions are also finding compelling reasons for investing in ECU borrowings.

For a company with operations throughout Europe and a number of EC subsidiaries, ECU bonds offer a means of cutting through the complications arising from currency fluctuations. Giant European corporations like Fiat *of Italy, Saint-Gobain of France and the* Lesieur edible oils company have found that using the ECU as a neutral accounting unit on their balance sheets gives a much clearer and truer picture of each foreign subsidiary's performance without the complications of exchange rate movements.

Such companies have also found that raising capital through an ECU bond issue enables them to make a single large borrowing on behalf of the whole group, which can then be "unbundled" from ECU back into the various national currencies and distributed to the subsidiaries.

As well as the more common 5-year and 10-year fixed rate bonds that make up the bulk of the ECU bond business, there have been many innovations. ECU issues have featured floating rates, deep discounts, zero bonds, warrants and specially targeted bonds.

Until six months ago, ECU bonds were the darlings of the Eurobond market. Since then, "they have become the victims of their own success," said Mr. Swings. ECU bonds had become so popular, he explained, that banks undercut one another on coupons in order to secure corporate business, with the result that ECU bond coupons hit a midyear low of 6⅝ percent and investor interest dried up. As a result, ECU bonds have fallen from fifth to sixth place in the league table of Eurobonds.

The U.S. dollar is still far and away the most popular currency, followed by the Swiss franc, the yen, the Deutsche mark and the pound sterling, followed by the ECU.

However, analysts now foresee the ECU *making a strong comeback for several reasons.* First of all, the yield on ECU bonds is for the time being higher, at 8½ to 8⅞ percent, than on Eurodollar bonds where it is under 8 percent). Experts stress that this situation is only temporary but point out that while it lasts U.S. investors have a major incentive to buy into ECU bonds.

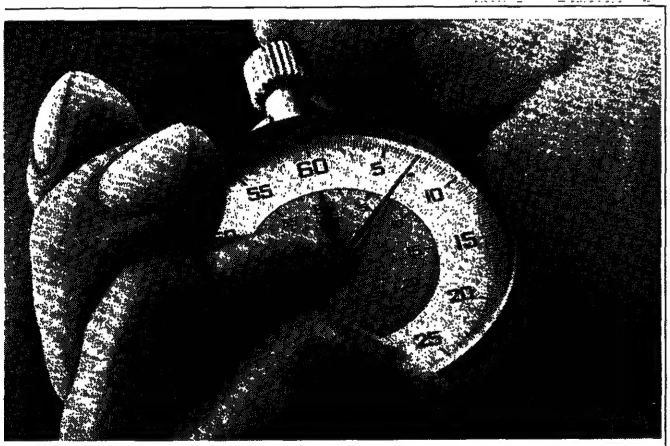
For U.S. investors, the ECU cuts through the problem of having to analyze Europe's different economies and monitor their currencies.

A longer-term development that experts like Mr. Swings are pinning their hopes on is the lifting of West Germany's ban on the private holding of ECU bonds.

The most important development that lies ahead for the ECU and for ECU bonds concerns the further development of the secondary market in ECU instruments.

There are 33 recognized market makers in ECU, which compares well with the 27 market makers in UK government gilts. In the City of London, a new computerized clearing system that can handle up to 200,000 ECU payment orders a month is under way, and an investment fund based on ECU bonds and securities may be unveiled shortly.

GILES MERRITT, a journalist based in Brussels, is a regular contributor to the International Herald Tribune.



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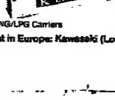

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Deregulation Is Revolutionizing System

Continued from page 9

marketed as securities or by selling to the higher quality creditors a promise to lend if that need ever arises. The key distinction is that the loan goes on the bank's books, the promise does not.

Banking regulators worry both about the deteriorating quality of the banks' loan portfolios and the big increase in off-balance-sheet business. Banks gladly sell these loans promises because they generate income without any increase in reported assets (loans) and thus do not get counted against capital the way an outright loan does.

That is an important consideration when all banks are under pressure to increase their capital-to-assets ratio. Supervisors now insist that some portion of these commitments show up on the books, but how much is still a subject of study and debate.

The array of new instruments, the lack of standardization, the blurring demarcation between them and, increasingly, the overlapping between banks and other financial intermediaries raise questions about whether existing disclosure requirements as well as supervisory controls adequately measure the risk exposure of market participants.

Rainier Gut, chairman of Zurich-based Crédit Suisse, believes the innovations are mostly "excellent," creating a more competitive environment that results in better service to clients. But he fears that not all the participants fully understand the risks they undertake.

Fundamentally, he said, "there is nothing really new" about the innovations. "A credit risk is a credit risk and therefore you have got to watch who you do business with." What does concern him is a worry that "people may be taking commitments beyond their capital and staying power and not realizing since its off balance sheet that their capital is at stake."

Another concern is the "blurring of the lines" separating banks from other financial institutions. "We are regulated, subject to strict supervision, but you see certain parabanking organizations getting into our traditional business without being subject to the same supervision and capital requirements."

Referring to the incursion of investment banks into commercial banking territory by "putting their own capital on the line in takeover situations," he said that "this is a risk-taking of a new sort which should be reserved for the commercial banks because they are subject to certain restriction and supervision."

"To a great extent," he fretted, "we commercial banks are being edged out of traditional business due to strict supervision."

This trend is clearest in the United States, where, due to the Glass-Steagall Banking Act of 1933 commercial and investment banking is separated. Commercial banking is viewed as such a no-growth business that the biggest banks — Morgan Guaranty, Citicorp, Chase and Bankers Trust, among others — have warned that unless Congress rescinds the ban on their ability to underwrite securities, they will surrender their commercial banking licenses. (Outside the country, the parent holding companies of the major U.S. banks all operate investment banks.)

Another trend clearest in the United States, where companies traditionally had a higher portion of equity capital to debt than companies in other countries, is the boom in debt financing. All kinds of innovations have cut the cost of debt at a time when the level interest rates are already at a decade low.

As a result, total debt in the United States at the end of last year amounted to $8.2 trillion, a 78-percent increase from 1980. Corporate debt rose 12.4 percent during the year, to $1.5 trillion, compared with a 9.4-percent annual rate of growth recorded in the 1960s.

One worry shared by officials as well as bankers is what they call the "moral hazard" stemming from the increasing reliance on debt securities, the globalization of markets and the emergence, through mergers and takeovers, of giant institutions that can never be allowed to fail because of the incalculable repercussions that might have on world markets.

The fear is that such institutions, knowing they can never fail, may accept to do increasingly risky business in a drive to be biggest in the share of business done or size of profits, or both.

The build-up of debt leaves companies vulnerable, eating vital cash-flow when business turns down or restricting operations when interest rates climb.

But thanks to the plethora of financial innovations — futures, options, swaps — businessmen can hedge their bets. They can borrow fixed-rate funds and effectively pay lower cost floating-rate money and, when rates threaten to rise, switch back to a fixed rate. They can borrow low-cost Swiss francs and swap into a currency less likely to appreciate against their own, opting for either a fixed or floating rate of interest.

Writing these options and swaps is big business for banks. The bulk of the record volume of Eurobonds issued on the international capital market are swap related. This explains the very aggressive terms on new issues and why the price of the bonds tends to fall immediately, leaving underwriters with no profit or a loss, although the lead manager who has arranged the swap has made a profit.

This does not deter banks from accepting invitations to underwrite such issues. They agree to participate for various "strategic" reasons — to learn the details of a complicated operation, to get closer to the issuer in the hope of winning future business, to be seen doing business to increase prestige and attract new clients.

This intense competition between financial institutions to win business and eliminate profits is also cause for concern. The banks themselves say that what they do not make on the deals, they make up in trading, an easy enough strategy considering that interest rates in all currencies have declined dramatically since 1982.

But at some point that decline will end, making trading profits harder to earn. The worry is where these firms will then earn the profits needed to stay in business.

"In our business, as in the nuts and bolts business in general, those transactions called 'commodity' transactions, which involve a standardized, replicable process and don't have any special made-to-order characteristics, are, in this new competitive world, being conducted at very, very cheap prices to the users," said Albert J. Wojnilower, chief economist at First Boston Corp. in New York.

"But, like in any department store, it is necessary to perform certain functions at a minimum profit just to be involved, to know the market . . . and get closer to the customers so that you're there when there are more unique and more profitable operations to be conducted," he said. "There are certain things that you have to do as part of the franchise of being a department store, even if they're not very profitable."

That does not mean, he stressed, that such business is unprofitable, only that "it's not highly profitable."

He agreed that "the huge transactions volume and the many novelties . . . are making the system more fragile." He, too, worried that "participants may not always be fully aware of the risks."

But he rejected viewing these as some kind of weight that one day will come tumbling down on itself.

"You can say that the system is more fragile in what-if situations; that if a strong wind were to blow, the structure would be more vulnerable. Then the question is a time situation, whether we might look forward to a few years in which there isn't a strong wind but at the same time the structure gets shored up because transactions set into a more recognizable pattern. It's a kind of race between those two forces.

"When the next strong wind comes, as it surely will, will the structure be better buttressed than it is today? I'm relatively optimistic. I don't think there's likely to be a strong wind soon, and on the whole the world's governments and central banks are committed to spreading the safety net where there is a large problem."

Nevertheless, there is considerable concern that bankers and their sophisticated clients are just a bit too confident that the use of futures, options, swaps and other devices have insured them from the risk of volatile changes in interest or exchange rates.

"The system as such cannot insure itself against, say, interest rate volatility," said Professor Lamfalussy. "What it can do is to redistribute this risk by shifting the burden onto willing risk-takers who undertake to play the role of insurance companies." He added, "But we must make sure that the insurers know what they are doing."

The recourse to floating-rate syndicated bank loans in the 1970s, he recalled, protected the banks from a squeeze on their own interest income by assuring them of an increase in the loan charge in lock step with any rise in interest rates, effectively the banks' own cost of money. In effect, the interest risk was transferred to the debtors.

In protecting their interest income, however, the banks inadvertently put at risk the much larger principal of the debt.

"Can one not also argue," asked Professor Lamfalussy, "that the aggravation of the risk on the principal incurred by the banks as a result of the deterioration in the debtors' financial position was as large as, or perhaps even, larger than, the gain derived from protected margins?"

In other words, the risks that banks and their clients are hedging today are borne by others. But who are they? Do they fully understand the risk? Do they have the resources to finance it?

Capital Imports ■ Issues Leapfrog

U.S. Ties to Foreign Funds

Continued from page 9

sector and investment," he said. "At the same time, we will have to be prepared to rely less on capital inflows to finance domestic needs."

"For other countries, with excessively large trading surpluses, the opposite must be true — relatively stronger growth in domestic demand and consumption and more fully utilized domestic savings as their trade balances decline," he added.

He also noted that the availability of foreign money has "had the practical effect of largely offsetting the huge demands on our money and capital markets from the [federal government's] budget deficit. Convenient as that borrowing has been, however, that process is not sustainable indefinitely."

Mr. Volcker continued: "We are now by far the world's largest debtor country, and even under favorable circumstances that net indebtedness will increase substantially further in the years ahead . . . In the more immediate future, the relevant question is whether foreigners will remain so willing to employ so large a fraction of their own savings in our markets. The question could become more pointed if and as their own economies expand more rapidly, as we would like to see."

The American appetite for foreign funds seems nearly insatiable. From January through June, according to figures from the Federal Reserve, foreign lenders and investors supplied 12.5 percent of the total funds raised in U.S. credit markets, which are by far the world's largest. At a seasonally adjusted annual rate, foreign funds accounted for $110 billion of the $883 billion total.

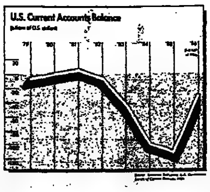
Only about half as much, $59 billion, was supplied by foreign sources last year. That, in turn, was more than double the level of only two years earlier, the Federal Reserve figures show. The foreign share of total funds raised in 1985 was 5.6 percent.

For several particular types of borrowing, foreign funds were even more important:

- Foreign purchases, at a seasonally-adjusted $47 billion for the year, accounted for 30 percent of the total net issues of corporate and foreign bonds in U.S. credit markets.
- Foreign buyers, including official agencies such as central banks, purchased U.S. government securities at a $53-billion yearly rate, about one-fourth of all those issued during the period. At each of the quarterly refinancings, in which the Treasury pays off maturing longer-term debt and raises additional money with larger new issues, a major point of speculation is the extent to which foreign buyers will participate. If there is a general expectation that foreign demand for the securities will be weak, the Treasury may end up paying higher interest rates than it otherwise would, analysts say.
- Finally, foreigners also bought corporate securities for a seasonally-adjusted $26 billion, and in the process accounted for 16 percent of the net issues of corporate equities.

Meanwhile, however, two other forms of foreign investment in the United States, bank deposits and direct investment, showed a different pattern.

Foreign deposits in domestic financial institutions fell at a $10-billion annual rate, a much more rapid decline than in either 1984 or 1985, when the level of such deposits also went down. Foreign direct investment in nonfinancial companies rose at a $9.4-billion rate, down from the $17.2 billion recorded in 1985 and the $25.6 billion of 1984.



Altogether, foreigners acquired net financial assets at a seasonally-adjusted $167 billion for the year while U.S. investors added only about $70 billion worth of financial assets abroad in the first half of this year.

Of course, many of the figures are the net outcome of volumes of capital flows in each direction whose magnitudes are many times greater and are increasing rapidly. This enormous growth in the volume of transactions, along with the liberalization of access to capital markets in Tokyo, London, Toronto and elsewhere, has caused many major banks, brokerage firms and government securities dealers to expand operations in other countries other than their home base.

JOHN M. BERRY is a reporter covering economic and financial topics for The Washington Post.

Euroequity Market Expanding

By Vivian Lewis

PARIS — A company like Saint-Gobain, the first to be denationalized under the French government's program, is a natural Euroequity. Under the French privatization program, share purchases by the company's personnel are privileged, and Saint-Gobain has 150,000 employees, half of them outside France.

The Eurobond market has spawned the Euroequity market. A Euroequity is any stock that trades actively in more than one market, which may not be in Europe. Fred Zuckerman, treasurer of Chrysler Corp., which has just been listed in Tokyo, thinks it is a "Samurai equity," a term he coined for foreign shares on Japanese markets.

The French government has chosen to limit total foreign investment to 20 percent of the Saint-Gobain share issue. But because Euromarket arbitrage extends across borders, the 20-percent limit will not hold once active trading begins.

Only a dozen French shares currently trade widely outside France. They include BSN, Moët-Hennessy, l'Oréal, Club Med, Louis Vuitton, Perrier, Lafarge, Michelin, Elf and Peugeot.

The first Euroequities were the products of cross-border mergers, such as Royal Dutch-Shell or Unilever (which are both Dutch and British) as early as 1900. Large corporations began to seek listings in foreign stock markets. The trend has picked up because of modern communications. Companies, however, often do not bother getting listed to sell their stock.

As a result, the Euroequity market is a system with perfect technology in communications, and problems and imperfections in everything else. A world system for quoting shares required only a slight adjustment in the screens covering national markets. Members of different dealing systems can now play in foreign equity markets.

There are three ways that world stock markets are coming closer. First, quotations can be exchanged between markets through electronic linkups. Secondly, corporations may actively set out to get their shares quoted in foreign markets. Finally, there is an enormous, informal "over-the-counter" market in international stocks. Banks or brokers are prepared to trade blocks of shares in foreign markets to their institutional clients on a bid-asked price basis, which may never be reported to stock exchanges at all.

Quotations for unlisted Euroequities are available through Euromarket screens developed for bond trading. But listed Euroequities also are quoted by high-technology methods.

The Interbourse Data Exchange System is a quotation exchange system between stock markets in London, Paris, Brussels, Amsterdam. All the U.S. exchanges are electronically linked through the Intermarket Trading System, which also links some Canadian stock exchanges. Through the National Association of Securities Dealers link with the London Stock Exchange, quotations are exchanged transnationally.

Corporations have opted to go further, and get their shares listed on foreign exchanges as well, in the form of American Depository Receipts, European Depository Receipts and Japanese Depository Receipts. These tradeable instruments are created by depositories, usually banks, which actually hold the foreign shares.

The number and size of Euroshare issues is leapfrogging. Because of foreign listing in New York, Toronto and Tokyo markets, British Telecom in 1984 was able to raise £3.9 billion ($2.8 billion), the largest equity offering in history. Other non-U.S. companies issuing equity in the United States in 1985 raised $900 million and in the first quarter of this year raised as much again, according to the Securities and Exchange Commission.

U.S. companies in 1985 raised $122 million and through May 1986 $600 million with Euroequity issues. Credit Suisse-First Boston expects that total Euroequity issues by about two dozen U.S. firms this year will top $1 billion. About 10 percent of the trading on the New York Stock Exchange is originated abroad.

Listing a Euroequity does not come cheaply. A study by Audit Continental in Paris (correspondents of Peat, Marwick, Mitchell & Co.) figured the cost of an introduction in the United States of a foreign stock at $1 million and the time it takes at a minimum of 40 days. This has been enough to discourage West German or Swiss companies from getting a New York listing. However, many Japanese companies are traded in the United States.

Getting a full listing in London would cost a company £250,000, plus fees of 2 percent of the amount raised for an underwriting and 0.5 percent for a placement. A way to cut costs, to £165,000 including underwriting fees, is to use the less prestigious Unlisted Securities Market. Getting a listing on the Paris Bourse would cost 500,000 francs ($75,757) to 4 million francs, depending on the method used and the exchange selected. (Again, using the over-the-counter-style *Second Marchè* cuts costs.)

Japanese listings are particularly cheap because of a deliberate policy of removing onerous and stringent requirements, although disclosure rules protect the small shareholder. The Japanese no longer require that former years' accounts be expensively restated to conform to Japanese Accounting Practices, but accept foreign audits.

Chrysler's Tokyo listing cost about $50,000 and took 105 days, according to Mr. Zuckerman. As of today, there are 36 non-Japanese companies listed in Tokyo, most of them well-known like IBM and Dupont. Merrill Lynch is about to get listed.

In addition to the initial listing cost, foreign markets require that shareholders receive quarterly consolidated translated information that some Continental European companies do not give their shareholders. If the market is to be active, the underwriter who introduced the shares must continue to make a market in the stock.

The over-the-counter Euroequity market does not depend on companies getting foreign listings and tends to be an institutional market. It is a way for institutions and the dealers who work for them to exploit the gross inefficiencies of stock markets or get around restrictions.

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Battle to Lead-Manage Issues in Eurobond Trading Intensifies

Continued from page 9

manager, who keeps the ½ percent praecipium to himself, can make any money.

While every syndicate manager insists that he is making money in the primary market — "otherwise I wouldn't be here" — the fact is few are, except the very dominant lead managers. And that, in turn, creates a self-fulfilling cycle of ruthless competition for lead management position.

The lead manager not only makes the ½ percent praecipium, the benefits of the relationship to the borrower and, of course, the visibility of league table-position; he can also recoup some money on the private side of a deal, such as swap fees. There can be, for instance, three or four related swap transactions hidden behind a new issue.

The lead manager is also in a better position to take a more aggressive syndication style. A dominant player in the league tables can offer an occasional profitable deal to co-managers and then pressure them to swallow the losses on the more than occasional badly priced deals.

One of the main reasons for a co-manager coming in on a deal when upfront losses are a foregone conclusion is the perceived need to be seen by the borrower as supporting the issue. This especially holds true for commercial banks. Profits in secondary market trading can also be contingent on leading an issue, because control of the books means the lead manager is better able to locate the paper when needed and take a more aggressive stance in his trading positions.

In its own study measuring the profitability of its lead and co-managed deals, an American house found that on the primary side in debt issues more than 90 percent of total profitability came from issues that it led with the remainder from co-managed deals, even though the firm had co-managed seven or eight times as many lead managed deals.

But in the transactional, commodities-like market place this year, price has essentially been all that separates the winning lead manager from the loser, and it is changing the definition of success.

In a classical post-bought deal Eurobond syndication, the lead manager buys the entire deal, prices it according to the indications of similar issues trading in the secondary market, and times the launch to ensure that syndicate members can distribute the paper to end investors within the fees. Everyone made a profit.

That has all changed. In the competition for mandates, underwriters severed the link in prices between the primary and secondary markets by pricing their issues not to place, but to win the bid, and increasingly, on a spread over the yield of U.S. treasuries of a similar maturity, regardless of the secondary market. Ultimately, the only buyers in such a delinked scheme of things have largely been the underwriters themselves.

The syndicate strategies also had to be adapted to the new conditions. It shifted to winning the mandate at nearly any price, syndicating as much as possible to co-managers to reduce risk, positioning the paper for a few weeks and hedging the risk as much as possible, and then trading out of the position when the market caught up with the pricing.

The new way was risky, though profitable, through the bond rally of last year and the first quarter of 1986, but by spring, underwriters got a taste of what a downturn in this new scheme of things could mean to the bottom line.

The soaring volume of new supply outstripped the appetite of the Eurobond investors, especially the core European retail investors, causing inventories to surge to record levels. By June, an estimated one half of all new issue fixed-rate dollar debt was still in inventory.

Most of the European houses did not hedge their Eurobond positions and reaped handsome profits through the bull rally earlier this year. Several of the U.S. houses were shorting U.S. treasuries against long positions in Eurobonds, but switched to marginal hedges or naked positions in April.

Unfortunately, the market reversed in late April, leading to substantial position losses. To make matters worse, even the hedged positions were losers because the spread between the Eurobonds and treasuries widened. Heads you lose, tails you lose again.

These events accelerated the trend toward a co-manager revolt. Their willingness to desert both issuer and issuing house has meant in the last half of the year that syndication is inherently much more difficult. Some syndicate managers assert the decline ratio is already an average of 50 percent. That means that the risk as lead manager is soaring, and ultimately, the business will go to the houses with the placement power and the bigger capacity to take and position paper.

"If market pressures continue, the ratio of declines will increase further and the only houses that can place entire issues will bid for mandates," asserted Nomura International's syndicate chief Hiroshi Toda.

Furthermore, the size of the syndicates will inevitably be smaller, concentrated among the first-tier institutions to whom each may owe reciprocity favors. Most of the leading houses now assert that underwriting half an issue is becoming the norm for doing business.

Shearson Lehman Brothers International pioneered a succession of deals in which it took half the issue on its own books for distribution and syndicated the other half among a group of perhaps no more than four co-lead managers who, in making a commitment to make a market in the issue, were also let in on the praecipium. Co-managers were brought in for slivers of the deal, mainly to ensure broader distribution.

Perhaps an indication of where things are headed lies with the $200-million, 15-year World Bank issue and a $150-million floating rate note for Crédit Lyonnaise led by Shearson Lehman Brothers last December. In the two deals, Shearson was the sole book runner and sole distributor of the deals.

Morgan Stanley found considerable market support for its Denmark issue squeeze ploy, and some thought that perhaps it represented a watershed in market belligerence. Fears abound that if the syndicate continues, it may draw the ire of regulators as the British government continues to debate the Financial Services bill, not to mention investors and issuers alike.

"Sooner than later, investors will get fed up with the free-for-all tactics of the underwriters and be scared out of the new issues market altogether," worried one universal bank's syndicate manager. "There has been enough badly priced deals this year to temp shorting into the lead manager's bid, but maybe this will at least slow the favor."

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'Globalists' and 'Regionalists' ■ *The Japanese Players*

Debate Sharpens Over Distributing Equity

By Kevin Muehring

LONDON — The record $1.6-billion global issue last September of what amounted to nearly 16 percent of the Italian automaker Fiat's stock was supposed to be a landmark in the development of the fast-growing Euroequity market. And it was, one way or another.

Nearly as soon as the lead manager, Deutsche Bank Capital Markets, began syndicating the deal, the market jumped ahead of itself and everything that could possibly go wrong, did. The share price on its home exchange in Milan began falling sharply and the co-lead managers, nervous with $100 million of risk on their books, panicked and tried to lay off their risk quickly with multiple calls on the same institutional investors.

A breakdown in pricing discipline led to deep discounts off the issue price, and confusion over the settlement procedure in Italy led to many sales back into Italy being abrogated.

Although Fiat's share price has since climbed back to within the 8-percent discount and underwriting fees for the deal, the issue nevertheless left many of the syndicate members nursing hefty underwriting losses. Questions ever since have hung over the future growth of the Euroequity market. In particular, the Fiat issue sharpened the debate between "regionalists" and "globalists" concerning the best techniques of distributing equity internationally.

The problems with the Euroequity deals that have gone badly to date, say leading strategists in the field, lie with the origins of the market's distribution systems in the traditional techniques and channels of the Eurobond market.

There, an international syndicate of underwriters is quickly assembled to take bonds on their books for rapid placement with large institutional investors and portfolio managers across national borders. Many underwriters have tended to use the same techniques and even the same sales force to distribute the equity.

If a bond issue is mispriced or poorly syndicated, the price will quickly slip outside the underwriting fees but soon find a market equilibrium in line with the prices of other similarly seasoned issues of the same maturity. It might cost the lead manager some prestige and maybe some money but then probably not, if the hidden swap fees or hedges are factored in.

Equity is different. For one, it still tends to be a different investor, working on different criteria and performance expectations, who is buying the global equity. He is also much harder to find in a short amount of time. And more importantly, unlike bonds, equity is fully fungible with what could be millions of existing shares, and, if the investor sells, there can be no certain mathematical bottom to how far it may fall.

"There is a yield floor on bonds, whereas with equity, there is simply no bottom to the downside risk," noted Enskilda Securities' managing director Gerard DeGeer. "A share is pure supply and demand."

For the underwriter, it could mean substantial losses if he is not quick enough to lay the risk off. And if the equity is not placed in firm hands, a badly distributed Euroequity issue can easily flow back to brokers in the home market with enough momentum to pull the share price down. While a corporate treasurer may care little about the performance of this or that bond, he will care about his equity and those questions that would inevitably follow from his board or irate shareholders. This "flowback" is the big fear.

The November 1984 British Telecom issue, in which U.S. investors were allocated some 18 percent but quickly sold all but perhaps 2 percent to cash in on the British government's low pricing of the deal, has been cited as the great example of flowback. The market has, however, provided numerous other cases of even worse flowback and disastrous issues, the Fiat issue merely being the largest and most recent.

It has not been lost on many that most of the badly performing deals have occurred with those utilizing a more "pure" Eurobond-style distribution. So as the banks strive to be among that lucrative first tier of lead managers, they are adapting their internal syndicate and sales organization and their distribution methods to better ensure firmer placement and less flowback on the issues they lead.

"The critical thing is to place it in the hands of people who wish to own the paper," said David Brooke, executive director at Warburg Securities. "This is a customer-led, distribution-driven business."

To that end, Salomon Brothers International split its international capital market activities, creating a parallel syndicate desk and sales force to the debt issues that will handle covertibles and equity warrants as well as pure equity placements. Other houses have put equity specialists on the syndicate desk and in the sales force, or they have established specialized equity groups within their securities operations.

Two distinct distribution techniques have also evolved since the first wave of deals. Swiss Bank Corp. and most of the European banks have, for instance, structured a syndicate technique known as the segmented or targeted-country approach, or what S.G. Warburg calls a "ring/fence" approach.

A three-tiered syndicate coordinated by the lead manager splits the issue into tranches that are sold into geographical regions with co-lead managers responsible solely for placement in his region. Each country co-lead manager runs separate books and puts together a sub-syndicate whose members are barred from selling outside their region.

Swiss Bank Corp. and its followers insist that this targeted syndicate structure ensures greater discipline among underwriters by preventing multiple calls on the same institutional investors. And by targeting sub-syndicates who best know their markets, the distribution better reaches the long-term, retail-end investor.

Credit Suisse-First Boston and most of the Wall Street houses, on the other hand, tend to favor a "globalist" approach to distributing Euroequities, utilizing a sole lead manager and single syndicate with the lead manager being the sole book runner. The global single-book-runner structure eliminates the middle level of the segmented allocation process, enabling the lead manager to better shift the paper to where true demand lies.

The other argument in favor of this delivery system is its enhanced trading capability. By running the books and knowing where the paper went, the lead manager is better able to stem the flowback in the aftermarket by trading the paper upstairs and off the exchange floor in the home market. The global strategist argues that controlling the trading flows or even keeping track of where the paper goes is impossible in a segmented, multi-book approach.

"The key is controlling the stock," notes Ludovico Del Balzo, who heads the Equity Products Group at Shearson Lehman Brothers International, reflecting something of a Wall Street view of the world. "But if you use a regional syndicate distribution, there is too much protection and you lose control."

The reasons, of course, for promoting the respective techniques has a lot to do with the underwriters' self-interest in adhering to the dictates of their own internal culture and organization and their primary client and investor base, as well defending the practices and strategies of their home markets.

The European banks prefer the segmented approach because their placing power is more narrowly centered in their domestic market, while the Americans tend to find advantage with the global approach since most Euroequity issues are not for sale in the United States.

And for that matter, Euroequity issues are just one layer of the international equity market. Issues can be tailor-made for distribution inside a foreign market, such as Japanese convertible bond and warrant issues in Switzerland, or a listing on a foreign exchange.

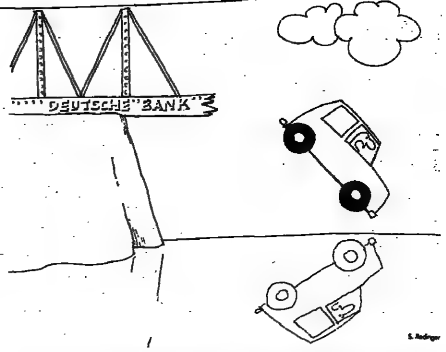
"The market is a multidimensional one, and it is important to select the approach or combination of approaches which will create the desired demand at the end-investor level," Michael Cole, director at Goldman Sachs & Co., wrote in a report on international equity markets.

It may be some time before the market sees the full repercussions of the Fiat fiasco. Mr. DeGeer of Enskilda Securities echoes many in expressing his concern that the deal may drive some investors away from future Euroequity offerings much as the underwriter infighting in the Eurobond market has done so much to drive away retail investors.

"I think the investors are getting fed up with these kind of deals and I suspect that this feeling will become more and more obvious," Mr. DeGeer noted.

But as badly as the Fiat deal went, every new market has its tumbles from which underwriters, issuers and investors alike draw their lessons. Ultimately, the Euroequity market will evolve toward some hybrid of the two competing styles, mixing the regionalist's emphasis on firm placement with the globalist's strength in upstairs trading and aftermarket liquidity.

If anything, the Fiat issue illustrated the weaknesses in both techniques if not supported by the strengths of the other. It can, for instance, take much longer to put a targeted syndicate into place. And if the equity is already widely held internationally, there is little point of such a carefully targeted approach because of the immense difficulties of controlling aftermarket trading.



Ironically, Deutsche Bank, which has traditionally preferred the targeted approach, argued it was not possible on its Fiat deal because there was little time and the Fiat shares were already globally held.

But for that matter, a global control over an issue is meaningless unless the lead manager backs it up with a commitment on trading the stock upstairs and taking a position in the stock. Above all, both sides argue that providing research and following the issuer's stock is critical to maintaining a high degree of investor interest and awareness.

The lesson learned may be a simple one: Do not lose nerve and take better care to keep all the players informed. The undercutting so rampant in the Eurobond market is ill suited to the mutual risks shared by all with equity. That will certainly not be lost on the upcoming French denationalization plans.

Japan, Flush With Funds, Makes Rush Into Europe

Special to the IHT

TOKYO — Japan's careful walk to the Euromarket has sped to a gallop in the last two years, with Japanese banks now front-runners in key aspects of Euromarket financing and overseas lending.

As the Ministry of Finance deregulates the Japanese financial sector and the demand for yen currency rises, banks, insurance companies and securities houses latch onto each new opportunity, spurred by competition at home and abroad.

Behind this lie Japanese banks' vast funds, which grew out of the Japanese penchant for saving and a trade surplus that will likely exceed $60 billion this year. Recent liberalization of interest rates has swelled the coffers further, revealing a voracious appetite among cash-rich corporations and individuals for higher yielding instruments.

Japanese banks now collectively hold 25 percent of international banking assets against 18 percent by U.S. banks.

In the 1960s and 1970s, these funds were invested in Japan's tremendous industrial growth. But whereas companies used to rely on financing for about 70 percent of their needs, cash flow now provides most. Within the financing that remains, corporations find securities a more effective avenue than loans.

As a result, Japanese banks are seeking new sources of business and one of the favorite places to look is overseas.

Although syndicated lending generally is decreasing, the prominence of Japanese banks is on the rise.

In the third quarter of 1986, Japanese banks' yen loans overseas totaled 258.1 billion yen ($1.61 billion), a 54-percent increase over the same period a year ago after the Ministry of Finance eased rules restricting loans by insurance companies to foreign entities.

At the end of 1985, Euroyen lending by overseas branches of Japanese banks came to 1.5 trillion yen, up from 552 billion yen in 1984 and 192 billion in 1983, according to the ministry.

Banks do not reveal their overseas exposure by domestic branches, so figures are not available. But a case-by-case look at recent syndicated loans shows steady activity, which bankers ascribe mainly to the easing of regulations on lending by various different types of financial institutions.

October saw the longest-term yen loan yet offered by Japanese lenders overseas, with Province de Québec signing for a 23-year 20-billion yen loan with a syndicate of six Japanese life insurance firms and a long-term bank.

In recent months, at least 12 major syndicated yen loans have been signed by Japanese financial firms. These include loans for Algeria, Denmark, Italy, the United States, China and Australia.

In June, Fuji Bank initiated the first foreign loan sub-participation by selling Chiba Kogyo Bank Ltd. half of a 40 billion yen loan credit to an unnamed foreign borrower.

Smaller Japanese banks seek sub-participation because of the lack of demand for loans by small companies in Japan and the lack of attractive fund management instruments here. Sub-participation is preferred because it exposes them to less long-term risk.

Major banks agree to this because that way they pass off some of their lower-quality loans and leave themselves more room for higher-quality customers within a total lending ceiling.

Many banks see Asia as the prime area for expanding business because countries there are entering the kind of growth phase Japan enjoyed until the mid-1970s. "Korea and Taiwan are now in the situation of the Japan before," said Simon Smithson, an analyst at Kleinwort Benson International (Tokyo). "They're geared to the hilt and will borrow ravenously for investment."

Since many Asian companies are not yet well-known overseas and their own securities markets are underdeveloped, borrowing is their only choice. One sign of commercial bank involvement in funding less-developed countries is the rise in Japanese private sector lending overall to international organizations to 614 billion yen in 1985 from 548 billion yen in 1984.

Many Asian countries have been attracted by the low interest rates on loans from Japan, whether commercial or soft. But more recently, the rise in the yen's value has sparked caution. Countries like Thailand, which has its debt profile increasingly dominated by Japan, produce commodities that are flat or falling in dollar terms. So they find the cost of loan servicing getting out of hand and worry that when it comes time to pay up, there could be a huge loss.

Japanese involvement in European capital markets has also been stunning in the past year. Largely because more Japanese firms have turned abroad to raise funds, but partly in foreign debts, too.

Japanese banks, which barely scraped into the top 10 international rankings in various kinds of financing last year, this year appeared regularly in the top five, according to an annual survey by Euromoney Magazine released in October.

Yen issues accounted for 8.7 percent of Eurobonds to June 1986 against 5.1 percent in 1985. The four largest Japanese securities houses and the Bank of Tokyo were the top five managers, commanding 79.1 percent of the market.

The trend is sure to continue, especially as banks are squeezed ever tighter while deregulation breaks down the walls that kept them protected from the outside world and each other.

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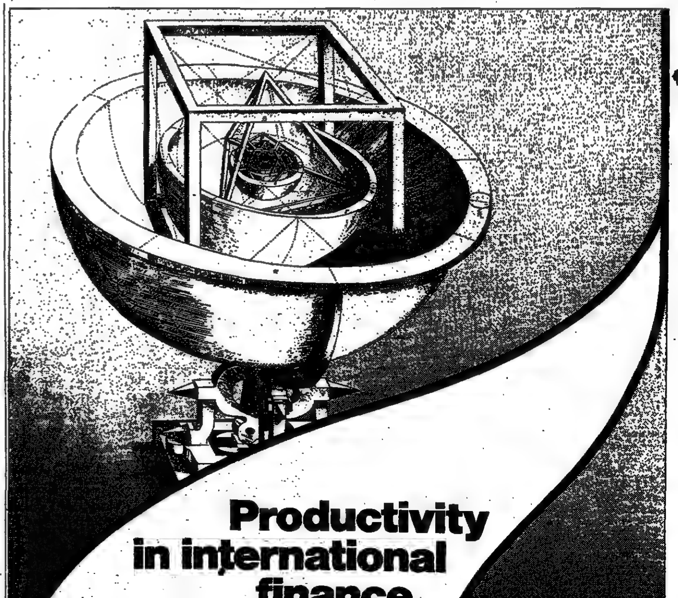

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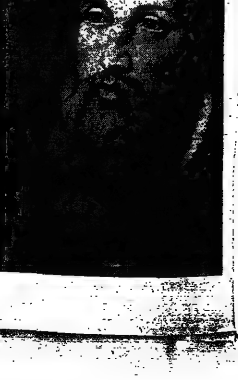

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EUROBONDS

Springtime Arrives Early For an Optimistic Market

By CARL GEWIRTZ

International Herald Tribune

PARIS — Optimism wafted through the Eurobond market last week. The dollar sector was buoyed by New York's renewed conviction that the next move in interest rates will be down rather than up. The Deutsche mark sector was boosted by the new level set a week earlier in the government bond market, which was seen as a realistic base to work from. And as the DM moves, so does the European currency unit.

Customers were drawn back to the market, bankers said, and registered a preference for slightly longer maturities of five-to-seven years rather than the five years or less that have recently been most popular. The slightly longer maturity gives a higher yield and, more to the point, if interest rates do decline should appreciate more than very short-dated paper.

Hopes for lower interest rates, pricing realism build confidence.

A major factor in the market's improved tone was the realistic pricing on most of the new issues. There were the usual quibbles over particular terms, but there were no cries of outrage about gross mispricing.

This return to realism was most apparent in the floating-rate-note sector where the London interbank offered rate has reappeared as the base rate rather than the bid rate, Libid, which is usually ⅛ point lower than Libor.

First Chicago offered a coupon of 3/16 point over Libor — the highest return seen this year from a U.S. money center bank. The bank, rated a weak single-A, has had its share of financial woes and the generous pricing proved especially fortuitous since all U.S. bank paper came under selling pressure when Moody's announced late Thursday that it was reviewing for possible downgrading its double-A rating of Citicorp's $26 billion of debt outstanding.

Prudential Insurance had an outstanding reception on its triple-A rated collateralized mortgage pass-through securities, the first such offering in the FRN market. The collateral is 29-year mortgage-backed securities paying 11½-percent interest. The interest and principal payments on these mortgages are used to service the FRN; Prudential itself bears no obligation to the noteholders.

THE STRUCTURE is somewhat complicated, but the market — blinded by what must be the most generous pricing ever on triple-A rated debt — did not waste much time trying to master the details. Within hours, the issue was increased to $500 million from the $300 million initially announced.

Interest will be set at 45 basis points, or .45 percent, over one-month Libor, which is currently 6⅛ percent. Interest on the FRN will never be higher than 11½ percent, a matter of no concern in today's market. Fees paid to underwriters were also generous — 75 basis points.

Although the FRN has a nominal 29-year life, most of the mortgages are likely to be prepaid given today's lower level of interest rates. As a result, holders have no assurance how long and how much of the FRN will remain outstanding. The lead manager, Goldman Sachs, says the average life is likely to be between two-and-a-half and three years.

In the fixed-rate market, investors responded to the magic of Mercedes Benz and IBM. Mercedes offered $100 million of 7¼-percent, seven-year paper at 100⅛, a yield at launch of 42 basis points over the yield on U.S. Treasury paper. By end-week, trading at 99, the paper was yielding 35 basis points over the Treasury curve.

IBM Japan sold $150 million of 7¼-percent five-year notes at 101⅜ for a yield of 57 basis points over Treasury paper and ended the week trading at 45 over Treasuries at a discount of 1¼.

Unusually, most of the new issues were trading just around the fees paid to underwriters. The exceptions were Thomson Brandt's five-year notes, which are exchangeable every three months for the first two years into an FRN paying 1/16 point over Libor. Despite the two-point discount the size of the issue was doubled to $200 million. Managers said the discounted price was aimed at trying to discourage underwriters who could not sell the paper from dumping it.

Norsk Hydro was the least well-received with its $150 million of seven-year bonds trading at a discount of 2¼ points: Higher-yielding Norwegian paper is easily available in the secondary market, critics said. Canon also had trouble finding takers for its $120 million of five-year notes, which ended down 2⅛ points.

West German investors were out in force buying high-coupon Australian dollar bonds of three- to five-year maturities issued by German entities — four banks and an industrial company, Standard Electric Lorenz. McDonald's tapped the longer end of the market with an eight-year maturity.

Most observers said, however, that all these new Australian

See EUROBONDS, Page 15

Last Week's Markets

All figures are as of close of trading Friday

Stock Indexes

United States	Nov. 21	Nov. 14	Ch'ge
DJ Indus.	1,893.56	1,873.59	+ 1.07 %
DJ Util.	211.48	210.16	+ 0.63 %
DJ Trans.	838.88	838.25	+ 0.08 %
S & P 100	233.68	229.83	+ 1.68 %
S & P 500	245.85	244.50	+ 0.55 %
S & P Ind	273.65	272.36	+ 0.47 %
NYSE Cp	140.94	140.72	+ 0.16 %
Britain			
FTSE 100	1,624.90	1,644.30	— 1.19 %
FT 30	1,274.20	1,293.20	— 1.47 %
Japan			
Nikkei 225	17,489.88	17,438.47	+ 0.29 %
West Germany			
Commerzbk	2,013.90	1,979.20	+ 1.75 %
Hong Kong			
Hong Seng	2,273.98	2,244.03	+ 1.34 %
World			
MSCIP	337.10	341.00	— 1.16 %

World index From Morgan Stanley Capital Int'l.

Money Rates

United States	Nov. 21	Nov. 14
Discount rate	5½	5½
Federal funds rate	5 15/16	5⅝
Prime rate	7½	7½
Japan		
Discount	3	3
Call money	3½	3 13/16
3-month interbank	4 5/16	4¼
West Germany		
Lombard	5½	5½
Call money	4.45	4.45
3-month interbank	4.75	4.70
Britain		
Bank base rate	11	11
Call money	10⅝	9½
3-month interbank	10 49/64	10 45/64

Dollar	Nov. 21	Nov. 14	Ch'ge
Bk Engl Index	111.50	110.70	+ 0.72 %
Gold			
London p.m. fix.$	388.90	408.25	— 5.17 %

Currency Rates

Cross Rates — Nov. 21

	$	£	D.M.	F.F.	I.L.	Gldr.	B.F.	S.F.	Yen
Amsterdam	2.275	3.22	112.965 *	34.495 *	0.1632 *	—	5.434 *	135.50 *	139.11 y
Brussels(a)	41.875	59.23	20.7873	6.348	3.0018 *	18.403	—	24.935	25.58 *
Frankfurt	2.0152	2.849	—	30.545 *	1.4435 x	88.52 *	4.81 *	119.99 *	1.2315 *
London (b)	1.4215	—	2.8783	9.4188	1,992.80	3.2425	59.636	2.3948	228.525
Milan	1,395.35	1,974.90	692.50	211.52	—	612.98	33.309	830.45	8.532
New York(c)	—	0.7042	2.023	6.6225	1,401.50	2.2855	42.05	1.693	164.15
Paris	6.9945	9.335	3.2737	—	4.727 x	2.8965	15.753 *	3.9254	4.0288 *
Tokyo	163.30	231.28	80.96	24.74	11.71 *	71.67	390.20 *	97.38	—
Zurich	1.6815	2.3778	83.435 *	25.45 *	0.1205 *	73.825 *	4.0129 *	—	1.0275 *
1 ECU	1.0319	0.7295	2.0819	6.816	1,441.80	2.3518	43.277	1.7368	168.928
1 SDR	1.1985	0.8476	2.4153	7.9032	1,689.85	2.7266	50.1884	2.0123	195.66

Closings in London and Zurich, fixings in other European centers. New York rates at 4 P.M. (a) Commercial franc (b) Amounts needed to buy one pound (c) Amounts needed to buy one dollar (*) Units of 100 (x) Units of 1,000 (y) Units of 10,000 N.Q.: not quoted; N.A.: not available. (+) To buy one pound: $U.S.1.42

Other Dollar Values

Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$	Currency	per U.S.$
Argen. austral	1.14	Fin. markka	4.94	Mex. peso	853.00	Soviet ruble	0.6798
Austral. $	1.5497	Greek drac.	138.40	Nig. naira	2.1441	Span. peseta	135.20
Austr. schil.	14.13	Hong Kong $	7.7935	Norw. krone	7.57	Swed. krona	6.96
Belg. fin. fr.	42.10	Indian rupee	13.14	Phil. peso	20.25	Taiwan $	36.33
Brazil cruz.	13.77	Indo. rupiah	1,644.00	Port. escudo	147.75	Thai baht	26.245
Canadian $	1.3867	Irish £	0.7372	Saudi riyal	3.7498	Turkish lira	743.40
Chinese yuan	3.7221	Israeli shek.	1.4955	Sing. $	2.1925	UAE dirham	3.6727
Danish krone	7.6725	Kuwaiti dinar	0.2942	S. Afr. rand	2.2173	Venez. boliv.	25.50
Egypt. pound	1.4285	Malay. ringg.	2.606	S. Kor. won	868.10		

£ Sterling: 1.0631 Irish £

Sources: Banque du Benelux (Brussels); Banca Commerciale Italiana (Milan); Banque Nationale de Paris (Paris); Bank of Tokyo (Tokyo); IMF (SDR); BAII (dinar, riyal, dirham); Gosbank (ruble). Other data from Reuters and AP.

Rockwell Unit Is Facing Lean Times

Demise of B-1 Means It Has No Big Program

By Ralph Vartabedian

Los Angeles Times Service

EL SEGUNDO, California — North American Aircraft Operations is observing its 50th anniversary of building airplanes this year, but any celebration is likely to be short-lived.

Although the unit of Rockwell International Corp. is successfully entering full-scale production of the B-1 bomber only this month, the end of the lucrative program is already painfully close.

When the last B-1 rolls out of a hangar in Palmdale, California, in 1988, the company will be without a major aircraft program to take it into the 1990s.

The U.S. Air Force and Navy have committed in recent years their next generation of large programs to other companies, virtually locking North American out of the big action in aviation for some time to come.

Just a few weeks ago, North American lost its bid to win a development contract on the air force's newest jet fighter, the Advanced Tactical Fighter, which carries a potential for $45 billion of future business.

The company chose to pursue the ATF alone and not join any industrial teams bidding for the work, which means it will not have even a small part of the ATF program. Of the seven major military aircraft manufacturers in the United States, North American appears to have the leanest slate of future programs.

Still, Robert Anderson, Rockwell's chairman, vows to remain in the aircraft business, buying time with a series of smaller programs until the next big opportunity comes his way.

"We have a pretty long-lasting commitment to the airplane business," Mr. Anderson said in recent interview at his office, overlooking flight operations at the Los Angeles International Airport.

"What is our next program? I don't know," Mr. Anderson said. "Nothing would make me happier than to have a large program."

The aircraft business is no place for the faint-hearted, experts say. To remain in the business, a player has to be willing to ante up for years at a time, even when he is losing hand after hand. Since North American, a pioneer aircraft maker, was acquired by Rockwell in 1967, it has managed to remain in the game.

"We have had our ups and downs before," Mr. Anderson said. "When I came here in 1969, we had zero aircraft programs. I mean zero. We have the finest people, the finest tooling, the finest capability. We will have to find a way to keep them busy until something comes our way."

Military aircraft experts agree that North American has a tough job ahead if it wants to remain a prime contractor in aircraft production.

"Rockwell is between a rock and a hard place," said Thomas H. McMullen, a recently retired three-star general who commanded the Air Force's Aeronautical Systems Division, the service's development and procurement arm for airplanes.

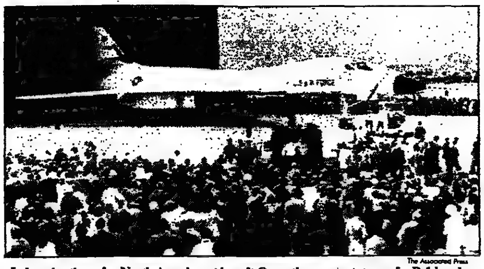
"But they have been in this situation before and they have been able to come back," Mr. McMullen added. "It's a complex thing to determine where a company is headed."

The dearth of new contracts raises the question of whether North American will be squeezed out of the aircraft business in future years. It is widely believed that substantial excess capacity has developed at the seven heavy aircraft companies in the United States.

"Seven is not a magic number," observed Verne Orr, retired secretary of the U.S. Air Force. "Six companies would give you competition. Five would give you competition. Even four would give you some competition."

Despite such talk, Mr. Anderson said Rockwell had given no thought to getting out of the airplane business. "We have not had one meeting at this company about how we are going to get out

See AIRCRAFT, Page 17



The Associated Press

In happier times for North American Aircraft Operations, a prototype of a B-1 bomber is rolled out of its hangar at Palmdale, California, in 1974 before a crowd of onlookers.

Rhône-Poulenc's Cup Runneth Over

International Herald Tribune

PARIS — The lowest-priced credit facility yet arranged in the Euromarket drew more than double the amount of money sought last week and, not surprisingly, the borrower Rhône-Poulenc increased the amount. The ink on that was barely dry when another French government-owned entity entered the market offering nearly identical terms.

Rhône-Poulenc had started out seeking a $200-million seven-year credit offering underwriters an annual facility fee of 4 basis points, or .04 percent. By the time the books closed, lead manager Société Générale announced, it had raised $418 million but increased the facility to $275 million.

Within 24 hours, Société Générale announced that Aerospatiale was entering the international credit market for the first time. It is seeking a $250-million, seven-year loan on which it also will pay underwriters an annual fee of 4 basis points.

Both Rhône-Poulenc and Aerospatiale can use the lines either to back the sale of Euro-commercial paper or as a revolving credit. If Aerospatiale draws on the credit it will pay 4 basis points over the London interbank offered rate. If more than half the amount is drawn it will pay a utilization fee of an additional 4 basis points.

The configuration of the drawing charges is slightly different from Rhône-Poulenc's, but the bottom line is the same: Full use of the credit in both cases will cost 8 basis points over Libor. Banks underwriting $20 million of the Aerospatiale loan will earn a front-end fee of 6 basis points.

Thirty banks joined the Rhône-Poulenc syndicate, including five U.S. banks and seven from Japan. The willingness to accept a low annual fee is regarded as a measure of the banks' eagerness to get closer to these companies in the hope that other, more profitable business relations can be developed.

Although government-owned, Aerospatiale does not carry the explicit guarantee of France. But unlike Rhône-Poulenc, Aerospatiale is not on the government list of properties to be denationalized.

INTERNATIONAL CREDIT

A good example of what bankers mean when they talk about financial engineering was provided by Merrill Lynch last week in an operation tailored for Italy's state-owned electric utility Enel.

The borrower wanted to tap the U.S. commercial paper market, but could not because Italy does not guarantee short-term debt. The solution: Enel will issue $200 million of 10-year floating-rate bonds, guaranteed by the government. The bonds will be purchased by Enel Commercial Paper Inc., a special-purpose company whose only asset will be the $200 million of Enel bonds. ECPI in turn will finance itself through the sale of commercial paper in New York.

The de facto guarantee of ECPI means that the CP it issues should qualify for the highest credit rating in the New York market.

To assure the availability of liquid assets to redeem maturing CP, a $200-million, 10-year back-up facility is being syndicated in the international market. If the CP could not be rolled over, money could be raised through the sale of Euronotes and if these could not be sold then the banks underwriting the credit facility guarantee to take the Euronotes.

The underwriters agree to buy notes at a price no higher than 5 basis points over Libor. If more than half the facility were used this way, the banks would earn a utilization fee of an additional 5 basis points on the amount of paper they take exceeding the 50-percent level.

For providing this back-up credit, underwriters will be paid an annual fee of 5 basis points. This is a touch more generous than French borrowers are now paying, but considered a small price to introduce Italian government-guaranteed securities to the U.S. market for the first time.

The structure enables Enel, which has no need for short-term money, to transform the low cost of U.S. commercial paper into a medium-term lending rate. The interest it pays on its 10-year floating-rate notes will be equal to the interest ECPI pays to raise money. Last week, three-month CP in New York was ¼ point cheaper than three-month Libor; in the past that differential has been as much as ¾ percentage point.

Bank of Tokyo is seeking a $250-million facility that is being syndicated on a club basis to 10 banks with which it has a long-standing close relationship. Under the facility, for which it is paying an annual fee of 5 basis points, Bank of Tokyo could place its certificates of deposit with these banks at a cost of 5 basis points over Libor subject to a utilization fee of another 5 basis

See CREDIT, Page 17

Banker Held In Brunei Fraud Case

United Press International

BANDAR SERI BEGAWAN, Brunei — The chairman of National Bank of Brunei Bhd and two auditors have been jailed without bail on charges of attempting to defraud the commercial bank of $660 million, officials said Sunday.

The police arrested Khoo Ban Hock, the chairman, and the bank's auditor, Andrew Peattie, at Brunei International Airport on Friday on their return from Singapore. Also arrested was Bernard Soo, a senior manager in Mr. Peattie's firm.

Mr. Khoo is a son of the Singapore-based hotel and real estate magnate Tan Sri Khoo Teck Puat.

The younger Khoo was charged in Brunei magistrate's court with five counts of conspiracy to defraud the bank and its depositors and lenders, and false accounting. The other two men face a total of three charges of conspiracy and false accounting.

The charges said there were other conspirators still at large.

No pleas were recorded from Mr. Khoo, Mr. Peattie and Mr. Soo.

The Finance Ministry has taken control of the bank and an affiliated company after a five-month investigation into their operations, officials said.

Tan Sri Khoo is known to have substantial property and business interests in Brunei.

SEC Defends Role in Allowing Boesky to Sell

By Nathaniel C. Nash

New York Times Service

WASHINGTON — The head of the Securities and Exchange Commission has defended the U.S. agency's action in permitting Ivan F. Boesky to sell $440 million in stocks while he was negotiating his insider-trading settlement with the commission.

The action produced an outcry on Wall Street. But the commission's chairman, John S.R. Shad said Friday that permitting Mr. Boesky to trade was a carefully considered attempt to avoid a market panic.

Mr. Shad said the SEC "was not aware of any securities law violations of his sales" just before the announcement Nov. 14 of the settlement. Mr. Boesky agreed to pay $100 million to settle insider-trading charges brought by the SEC.

Although most legal experts agree that Mr. Boesky did not violate any laws against trading in nonpublic information by selling his shares, they complained that such last-minute trading seemed highly inappropriate and that the commission should have restricted the trading or blocked it altogether.

Mr. Shad said in an interview that the SEC fully expected the market to decline in the wake of the settlement. Such a decline would have had a sharp impact on Mr. Boesky's holdings, both because they were made up of especially sensitive stocks and because they were financed with large debts.

What the SEC envisioned was that, had Mr. Boesky not sold his shares, a plunging market would set off margin calls on his holdings, forcing immediate sales that would drive the market still lower. This, in turn, could produce margin calls throughout the market, a recipe for financial rout.

Traders often buy stock on margin, or credit, provided by the broker. But if the stock loses much of its value, the broker may insist that the buyer put up more cash, protecting the broker from a loss. That demand for cash is a margin call. If the investor cannot put up the additional cash, the broker may sell the stock. On a wide scale, such selling would depress the market.

Mr. Shad declared, "If we had made him a forced seller into a falling market, you might have seen some very, very big losses."

In a statement Friday, the SEC said it had sought to avoid a situation that "could force precipitous and uncontrollable liquidations of securities" in the market.

Members of Congress and Wall Street professionals have described the commission's action as giving Mr. Boesky, who is charged with the largest illegal insider trading scheme on record, an unfair advantage over the market, letting him avoid large potential losses.

But Mr. Shad said: "We decided to let him sell off the stock, not for his benefit but for the benefit of the passive investors" in Mr. Boesky's fund and the market in general.

Mr. Boesky runs a $1.33-billion investment fund with a number of limited partners. Mr. Shad pointed out that Mr. Boesky has only a small partnership share in the fund, called Ivan F. Boesky & Co. However, as its investment adviser and general partner, Mr. Boesky gets a large share of the profits.

Mr. Boesky agreed to give back $50 million in illegal profits and pay a $50-million penalty. He will also be barred for life, beginning in early 1988, from the securities business in the United States. In addition, he has agreed to plead guilty to one criminal charge.

What angered many people on Wall Street was that Mr. Boesky, with the SEC's tacit approval, sold almost half a billion dollars in mostly takeover-related stocks at their peaks before word of his troubles was made public. The announcement was made late in the afternoon of Nov. 14, after the market had closed. Early last week the takeover-related stocks led a major market retreat, causing many investors huge losses. Some analysts estimate that Mr. Boesky avoided losses of as much as $40 million.

Fund Boesky Ran To Be Liquidated

New York Times Service

LONDON — Cambrian & General Securities PLC, the British investment fund formerly run by Ivan F. Boesky, has decided to try to sell off its portfolio of stocks and liquidate the company, an adviser to the fund said Sunday.

At an all-day board meeting that lasted until late Friday evening, the directors of Cambrian named S.G. Warburg & Co., the London merchant bank, to oversee the sale designed to "achieve maximum value for the shareholders."

Cambrian will also terminate the contract with Mr. Boesky's management company, IFB Managing Partners.

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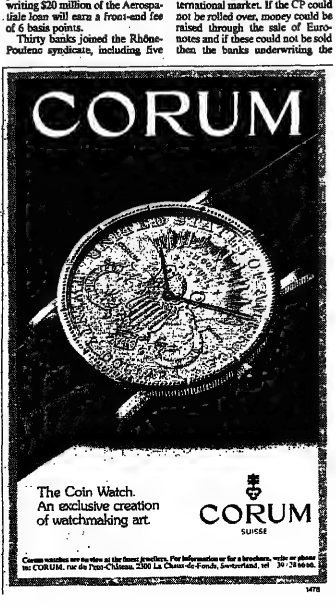

All these Bonds having been sold, this announcement appears as a matter of record only.

NEW ISSUE — October 1986

CITY OF VIENNA

Republic of Austria

Swiss Francs 200,000,000

4 ¾ % Bonds 1986-1992/96

Kredietbank (Suisse) S.A.	Nordfinanz-Bank Zürich
Clariden Bank	Lloyds Bank Plc
Amro Bank und Finanz	Bank CIAL (Schweiz) - Crédit Industriel d'Alsace et de Lorraine AG -
Armand von Ernst & Cie AG	Fuji Bank (Schweiz) AG
Banco di Roma per la Svizzera	Gewerbebank Baden
Banque Générale du Luxembourg (Suisse) S.A.	Handelsfinanz Midland Bank
Banque Indosuez	Hypothekar- und Handelsbank Winterthur
Banque Morgan Grenfell en Suisse S.A.	Maerki, Baumann & Co. AG
Caisse d'Epargne du Valais	Sparkasse Schwyz
First Chicago S.A.	Commerzbank (Schweiz) AG
Sumitomo Trust Finance (Switzerland) Ltd.	Dai-Ichi Kangyo Bank (Schweiz) AG
Bank of Tokyo (Schweiz) AG	Manufacturers Hanover (Suisse) S.A.
Banque Gutzwiller, Kurz, Bungener S.A.	Merrill Lynch Bank (Suisse) S.A.
Banque Kleinwort Benson S.A.	Soditic S.A.
BKA Bank für Kredit und Aussenhandel AG	The Royal Bank of Canada (Suisse)
	Yamaichi (Switzerland) Ltd.

International Bond Prices

(Continued)

[illegible]

NASDAQ National List

OTC consolidated trading for week ended Friday. Oct. 21

[illegible]

SELECTED U.S.A./O.T.C. QUOTATIONS

	BID	ASK
Bitter Corp.	3½	4
Chiron	22½	22¾
GoodMark Foods	12	12⅝
MAG Holdings	4½	5⅛
Spectradyne	16¾	17¼

WITH COMPLIMENTS OF CONTINENTAL AMERICAN

These are indicative prices as of Nov. 20, 1986

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INTERNATIONAL POSITIONS

You will find below a listing of job positions published last Thursday under the rubric International Positions.

TITLE	SALARY	EMPLOYER
COORDINATOR/SENIOR SYSTEM ANALYST	Excellent	Abu Dhabi National Oil Company.
MANAGER REPORTING & ANALYSIS	Excellent	WABCO.
SALES PERSON		The International Herald Tribune (based in N.Y.).
BIOTECHNOLOGY MANAGER	Good	Raggio di Fole.
AREA SALES MANAGER COMPUTER PRODUCTS	Good	A high technology company in the U.S.A.
SALES MANAGER		Koo Perfekta GmbH Infochemicals.

If you haven't seen last week's **INTERNATIONAL POSITIONS** rubric, please ask for a free copy: Max Ferrero, **INTERNATIONAL HERALD TRIBUNE, 92521 Neuilly Cedex, France. Tel: (1) 46.37.93.81. Telex: 613595**

SWEDEN

SWITZERLAND

UNITED KINGDOM

UNITED STATES AMERICA

Norwegian Kroner

Euro-Currency Units

Japanese Yen

Pounds Sterling

Canadian Dollars

French Francs

Zero-Coupons

[illegible]

cas: Canadian dollar; dm: Deutsche mark; ecu: European currency unit; ff: French franc; £: pound sterling; nkr: Norwegian kroner; a: annual; pv: private placement; X/w: with warrants; X/ww: ex warrants; y: yen. Amounts in millions. Interest paid free of tax except otherwise indicated. Yields before tax and calculated per AIBD standard definition. Convertibles: Figure after name of issuer is number of shares into which bond is convertible. Conversion price of non-U.S.$ bonds calculated at present foreign exchange rate. Share Yields before tax on indicated dividends.

Convertible Bonds

EUROPE

JAPAN

MISCELLANEOUS

UNITED STATES AMERICA

[illegible]

Euromarts At a Glance

Eurobond Yields

	Nov. 19	Nov. 11
U.S. $ long term, 8 yrs & over	8.71	8.72
Public issuers, 8 yrs & over	8.42	8.46
Industrials, 8 yrs & over	8.57	8.70
Industrials, 5 to 7 yrs	8.23	8.23
Pounds sterling, 5 to 7 yrs	11.51	11.40
French francs, less than 5 yrs	8.45	8.57
ECU, 8 yrs & over	8.34	8.45
5 to 7 yrs	8.15	8.20
Can. $, 5 to 7 yrs	9.85	9.96
Aus. $, 5 to 7 yrs	13.98	14.07
N.Z. $, less than 5 yrs	15.58	15.67
Yen, 8 yrs & over	6.31	6.33
5 to 7 yrs	5.81	5.82

Source: Luxembourg Stock Exchange.

Weekly Sales Nov. 21

Primary Market

	Cedel $	Cedel Nonᵩ	Euroclear $	Euroclear Non$
Straights	995.40	228.90	1,508.90	272.70
Convert.	6.80	39.80	38.30	241.70
FRNs	45.00	—	1,541.40	184.60
ECP	594.30	26.30	2,283.30	38.34
Total	1,641.70	294.80	5,342.30	665.30

Secondary Market

	Cedel $	Cedel Non$	Euroclear $	Euroclear Non$
Straights	7,687.30	6,416.70	13,178.70	6,068.20
Convert.	301.90	98.50	1,121.80	322.40
FRNs	4,867.80	1,111.20	17,534.90	1,726.40
ECP	1,597.80	42.30	2,184.40	54.60
Total	14,576.80	7,668.40	34,251.60	8,163.40

Source: Euroclear, Cedel.

Libor Rates Nov. 21

	1-month	3-month	6-month
U.S. $	6⅛	6⅛	6 1/16
Deutsche mark	4⅝	4⅝	4⅝
Pound sterling	11	11⅝	11 9/16
French franc	7⅜	8	8⅛
ECU	7½	7 9/16	7⅝
Yen	4⅞	4 11/16	4 11/16

Source: Morgan Guaranty, Lloyds Bank, Reuters.

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مكتبة من الأصل

صورة عن الأصل

New International Bond Issues

Compiled by Laurence Desvilettes

Issuer	Amount (millions)	Mat.	Coup. %	Price	Price end week	Terms
FLOATING RATE NOTES						
First Chicago	$125	1996	3/16	100	99.70	Over 3-month Libor. First coupon will be the higher of Libor plus 3/16 or 6½%. Callable at par in 1991. Fees 0.35%.
Franklin Savings Association	$250	1991	¼	100	—	Over 6-month Libor. Noncallable. Fees 0.25%. Registered notes in denominations of $100,000.
Midland Bank	$300	perpt.	0.10	100	99.78	Over 6-month Libor. Callable at par in 1992. Fees 0.25%. Denominations $10,000.
Prudential Insurance Co. of America	$500	2015	0.45	100	99.85	Over 1-month Libor. Collateralized mortgage obligations. Average life 2.53 years. Fees 0.75%. Denominations $50,000.
Yakong	$50	1996	3/16	100	—	Over 6-month Libor. Redeemable at par in 1991 and 1993 and callable at par in 1989. Fees 1 3/16%. Denominations $250,000. Issued in Asia.
FIXED-COUPON						
Canon	$120	1991	7⅝	101⅜	99.25	Noncallable. Fees 1⅞%.
European Investment Bank	$100	1993	7⅝	100½	99.50	Noncallable. Fees 1⅞%.
IBM Japan	$150	1991	7¼	101⅜	99.63	Noncallable. Fees 1⅞%.
Marriott Portman Capital	$375	1993	8⅜	101⅜	99.98	Noncallable. Fees 1⅞%. Denominations $10,000.
Mercedes Benz Credit	$100	1993	7¼	100⅜	99.00	Noncallable. Fees 1⅞%.
Mitsubishi Trust Finance	$100	1993	7⅝	101½	99.65	Noncallable. Fees 1⅞%. Denominations $25,000.
Mutual of America Life Insurance Co.	$100	1992	7⅝	101¼	99.40	Noncallable. Fees 1⅞%.
Nippon Credit Bank (Curacao) Finance	$100	1991	7½	101¼	99.65	Noncallable. Fees 1⅞%.
Norsk Hydro	$150	1992	7	100	97.75	Noncallable. Fees 1⅞%.
Swedish Export Credit	$ 50	1989	8	100⅛	—	Noncallable. Redemption amount at maturity will be linked to the U.S. Treasury's 11¼% bonds due 2015. Fees 1⅞%. Denominations $500,000.
Thomson Brandt	$200	1991	7¼	101⅜	99.63	Noncallable. Exchangeable every 3 months during the first 2 years for a noncallable FRN due 1997 and paying 1/16 over 3-month Libor. Fees 1⅞%. Denominations $10,000.
Philip Morris Companies	ECU 75	1989	7¼	101¼	99.50	Noncallable. Fees 1⅞%.
Rautaruukki	ECU 50	1993	7⅝	101½	100.13	Noncallable. Fees 1⅞%.
World Bank	ECU 150	1997	7¾	101⅜	99.38	Noncallable. Fees 1⅞%.
Caisse Nationale des Télécommunications	C$ 100	1994	9½	101⅛	99.63	Noncallable. Fees 1⅞%.
General Motors (Canada)	C$ 100	1991	9¼	101⅛	98.75	Noncallable. Fees 1⅞%.
Household Financial	C$ 75	1992	10	101¼	99.38	Noncallable. Fees 1⅞%.
National Bank of Canada Mortgage	C$ 100	1991	9½	101⅛	99.00	Noncallable. Fees 1⅞%.
BHF Bank Finance (Jersey)	Aus$ 50	1989	14¼	101¼	—	Noncallable. Fees 1⅞%.
Colgate Palmolive	Aus$ 75	1991	14¼	101¾	99.88	Noncallable. Fees 2%.
Deutsche Bank Finance (Curacao)	Aus$ 60	1989	14	101	99.38	Noncallable. Fees 1½%.
Hamburgische Landesbank	Aus$ 50	1989	14⅛	101¼	99.00	Noncallable. Fees 1½%.
Landesbank Rheinland-Pfalz	Aus$ 40	1991	14	101½	99.00	Noncallable. Fees 2%.
McDonalds System of Australia	Aus$ 50	1994	14¼	101⅛	99.13	Noncallable. Fees 2%.
Standard Elektrik Lorenz Finance	Aus$ 30	1990	14	101¼	99.38	Noncallable. Fees 1⅞%.
Pirelli Financial Services	NZ$ 40	1990	16¼	101¼	99.25	Noncallable. Fees 1⅞%.
Sweden	¥ 25,000	1991	5⅝	101½	99.38	Noncallable. Fees 1⅞%.
EQUITY-LINKED						
Aichi Toyota Motor	$ 20	1991	open	100	98.00	Coupon indicated at 3⅛%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2½%. Terms to be set Nov. 27.
Harima Chemicals	$ 30	1991	open	100	98.00	Coupon indicated at 3⅛%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2½%. Terms to be set Nov. 27.
Kanto Natural Gas Development	$ 40	1991	open	100	—	Coupon indicated at 3⅛%. Noncallable. Each $5,000 note with one warrant exercisable into company's shares at an expected 2½% premium. Fees 2½%. Terms to be set Nov. 26.
Lucas Industries	$ 50	2001	open	100	—	Coupon indicated at 5⅛%. Redeemable in 1991 to yield 7.47 to 8%. Convertible at an expected 4 to 8% premium. Fees 2½%. Terms to be set Nov. 26.
Magna Int'l	$ 75	1993	7	100	98.50	Callable at 102 in 1991. Convertible at $20⅛ a share. Fees 2½%.
Noritz	$ 30	1991	3¾	100	—	Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 2,255 yen per share and at 163.80 yen per dollar. Fees 2½%.
Sodick	$ 40	1991	3¾	100	100.50	Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 2,184 yen per share and at 164.20 yen per dollar. Fees 2½%.
Toshiba Ceramics	$ 70	1991	3¾	100	101.00	Noncallable. Each $5,000 note with one warrant exercisable into company's shares at 1,282 yen per share and at 163.75 yen per dollar. Fees 2½%.
Credit Suisse Finance (Panama)	DM 150	1993	open	100	105.00	Coupon indicated at 2½%. Noncallable. Each 5,000-mark note with 10 five-year warrants exercisable into bank's shares at 3,700 Swiss francs each, representing no premium. Fees 2½%. Terms to be set Nov. 24.
Nixdorf Int'l Finance	DM 500	1994	6¼	145	143.50	Each 5,000-mark bond with 2 warrants exercisable into a total of 10 shares of 702 marks each, representing no premium. Fees 2½%.

EUROBONDS: *A Breath of Spring for the Market*

(Continued from first finance page)
dollar issues in a week risked overtaxing the market's ability to absorb so much paper in so short a span.

Given the relative stability of the Canadian and U.S. dollars and the yen's new stability against the U.S. dollar, Japanese investors are reported to be moving into Canadian dollar bonds to pick up the higher yield they carry.

However, only one of the new issues ended the week within the underwriting fees — the 9½-percent, eight-year bonds of Caisse Nationale des Télécommunications. The five-year, 9¼-percent paper issued by GM Canada fared the worst, with a discount of 2⅜ points.

The Japanese are also reported to be buying Deutsche mark paper, thereby helping to weaken the yen against the mark and giving a modest boost to Japanese goods competing against German products. Since August, the yen has declined about 10 percent against the mark.

On offer in the DM sector last week was a 500-million-DM bond from Nixdorf carrying warrants to buy 10 shares of the West German computer maker's stock. The 10-year bonds carry a coupon of 6¼ percent and were priced at 145 — meaning investors would pay 1,450 DM for bonds that will be redeemed at 1,000 DM. (The minimum denomination is 5,000 DM.)

At first glance that is a huge premium. The 10 shares can be purchased at a price of 702 DM each starting in six months' time. The preferred shares quoted in Frankfurt traded Friday at 711 DM. On a simple basis, it looks as if investors are being asked to pay a 32-percent premium for the right to buy the shares.

But the warrants give holders rights to buy five preferred, or nonvoting, shares and five ordinary, or voting, shares. The ordinary shares currently are not listed on the stock exchange because they are held entirely by the Nixdorf family. Because German corporate law requires that the amount of preferred shares not exceed common stock, and because the current ratio is 50-50, Nixdorf is obliged to issue an equal number of preferred and common shares.

Voting shares in West Germany normally trade at a 15-percent premium over preferred shares. Thus, the option to buy voting shares, which now will be listed on the stock exchange, really reduces the premium on the warrants to around 22 percent.

□

In response to last week's article on Denmark's tapping the market for $1 billion and 1 billion French francs, which said that Denmark had achieved a reputation of doing business with any bank and having loyalty to none, Lars Tybjerg, assistant permanent secretary at the Ministry of Finance, writes:

"Contrary to the article the facts of the matter are that in none of the cases competitive bidding or anything like it [was] used. Secondly, all of the banks mentioned are old time relations of Denmark....

"So much for the two recent issues which contradict your terms 'unfaithful' and 'cynical.' As to 'prolific,' 'has borrowed too often' I have to admit you have a small point but that is easy when one is focusing on part of the picture only. The main thing is that the frequency does tell very little.... A significant part of the borrowings are used to prepay older loans because the new borrowings are *cheaper* than the existing debt. It would have looked very nonprofessional not to use such possibilities."

Board Forecasts Faster U.S. Growth

Agence France-Presse

NEW YORK — A boost in exports should help the U.S. economy grow at a rate of 3 percent next year, up from the current 12-month rate of 2.2 percent, the Conference Board reported over the weekend.

The board, a major U.S. employers group, said the lower dollar had already improved the competitiveness abroad of the U.S. textiles, chemicals, engineering technology and wood sectors.

But the group warned that continuing large federal budget deficits would erode the capital investment needed to improve the nation's sluggish productivity.

Consumer spending, which buttressed activity this year, will be a passive agent in 1987, despite expected tax breaks, the board said.

The improvement in economic activity should lead to an faster increase in company profits and a drop in unemployment, it forecast.

The estimated that the growth rate for U.S. gross national product, which measures the total value of goods and services including income from foreign investments, was lower than the White House's most recent forecast of 4 percent.

WORLD STOCKS IN REVIEW / *Via Agence France-Presse*

Amsterdam

The stock exchange reacted briefly to the insider-trading scandal on Wall Street last week, but had a scandal of its own.

On Tuesday, the exchange ordered trading in Bredero and Breevast shares to cease and canceled some transactions conducted in these two stocks. A connection was made between abnormal price moves and a forthcoming announcement of a major reorganization at Bredero.

The ANP-CBS General Index rose from 280.3 to 283, with volume moving from 4.153 billion guilders to 3.784 billion.

Frankfurt

Share prices recovered last Thursday and Friday in response to activity by foreign investors. Market sources said stable interest rates held out the prospect of more favorable trends.

The Commerzbank index gained 34.7 points over the week to finish at 2,013.9 points. In a week shortened by a holiday on Wednesday, the value of shares traded totaled 1.768 billion Deutsche marks, against 1.899 billion DM a week earlier.

Leading issues were the tire maker Continental Gummi-Werke, up 15.20 DM to 347.70, and Schering, in pharmaceuticals, which rose 37.50 to 663.50.

Siemens was well-supported, moving up 21 to 717 after having announced stable profits.

Hong Kong

Steady final-session buying by investors impatient with the market's dull performance helped push the Hang Seng Index up 29.95 points last week to finish at 2,273.98.

The Hong Kong Index rose 18.53 points to end the week at 1,442.47. Daily average volume fell to 454 million Hong Kong dollars from the previous week's 841 million dollars.

Some local investors were unsettled Thursday by news that a local tycoon, Li Ka-shing, was to invest 4 billion Hong Kong dollars ($513.4 million) in a joint venture to build a power station in China, dealers said.

Among leading shares, Swire Pacific put on 80 cents to 17.20 and Cheung Kong 75 to 32.00. Hutchison lost 50 to 40.50.

London

Disclosures of insider trading on both sides of the Atlantic unsettled sentiment last week.

The Financial Times industrial share index closed down 19 points on the week at 1,274.2. The volume of transactions fell from 151,546 to 138,497.

International stocks fell sharply early in the week on fears that inquiries into the Ivan Boesky affair might involve other international arbitragers. But a flurry of takeover news and company results lent late support.

The conglomerate BTR started the trend, announcing a surprise £1.16-billion ($1.62-billion) offer for Pilkington Brothers, the world's largest glass company.

British & Commonwealth quickly followed with an agreed £656-million bid for Exco, while commodity traders S&W Berisford announced the sale of 70 percent of British Sugar Corp. to the Italian Ferruzzi Group.

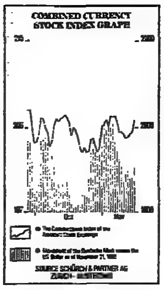
Richard Branson's Virgin Group made a disappointing market debut on Friday, opening around its offer price of 140 pence.

Milan

The Milan bourse suffered one of its worst weeks this year as the COMIT index plunged 5.65 percent with varying losses in all five sessions.

The index closed Friday at 701.41, against the previous week's finish of 743.49. An average of 50 million shares changed hands daily, at a value of 284 billion lire.

Montedison, with a loss of 3.10 percent, put on the best performance among the industrials, while Fiat ordinary shares dropped 9.69 percent and preference shares fell 11.13 percent. Olivetti plunged 7.27 percent.



Paris

The stock market turned in a robust performance last week before the much awaited denationalization of the glass and construction concern, Saint-Gobain, scheduled to begin Monday.

Share prices gained 3 percent over the week, with the CAC index moving from 378.6 to 388.2.

Dealers said the trend was bullish, reflecting cheaper credit and positive inflation results for October.

Singapore

The Singapore stock market took a severe beating last week with several counters, including blue-chip banking issues, falling sharply.

The Straits Times industrial index lost 23.23 points on Friday to finish at 863.67, for a weekly drop of 21.96 points. A total of 161 stocks finished lower and only two gained.

Investors were divided in their opinion on the cause of the sharp downward movement. Many pointed to a continuation of the previous week's downward trend. Others pointed to a rift between Malaysia and Singapore.

Among the big banks that took a plunge were heavyweights OCBC and DBS, which both dipped 30 cents to 8.85 each.

Tokyo

Share prices were mixed in Tokyo last week.

The 225-blue chip Nikkei Average, the key market barometer, finished at 17,489.58 yen Friday, up 99.08 yen from the previous week. The Tokyo Stock Exchange index suffered a 0.31-point loss to 1,430.03.

Average volume declined to 414.97 million shares from the previous week's 469.3 million shares, while average daily turnover dropped to 326.118 billion yen from 434.431 billion yen.

The market got off to a bad start Monday after rumors that President Kim Il-Sung of North Korea had been assassinated. The Boesky insider-trading on Wall Street scandal also weighed heavily on investors' minds, analysts said.

But the market recovered after the news of President Kim's assassination proved to be false and Wall Street's reaction to the Boesky case turned out better than expected.

Export-oriented blue chips were bought Friday, boosted by the stability of the yen against the dollar. Sony gained 270 yen over the week to 3,600, TDK 90 to 4,020 and Hitachi 15 to 975.

Zurich

Dealers said the Zurich market overcame negative effects of the fire at the Sandoz plant earlier this month. The coming week, they said, should see the trend continue as foreign investors are once again in evidence.

The Swiss Bank Corp. index moved up from 651.3 to 666, with market sources predicting that it will climb to 675 before the end of the year.

Chemical issues began to recover late in the week, but sill closed lower compared with the previous Friday. Ciba-Geigy bearer shares stood at 3,330 Swiss francs, against 3,410, while Ciba-Geigy nominals fell from 1,770 to 1,745.

Bonds Rise Despite Jolt Of Scandal

United Press International

NEW YORK — The bond market sailed through the jolt of the Ivan F. Boesky insider-trading scandal and a $9.4-billion rise in money supply to finish higher in all sectors last week.

The evidence of widespread insider-trading abuses had only a

U.S. CREDIT MARKETS

momentary effect on the bond market with the exception of high-yielding "junk bonds," which remained depressed after heavy falls earlier in the week.

Many of the takeovers in which Mr. Boesky, the New York investor, is said to have made millions of dollars on illegal insider tips were financed by junk bonds issued by Drexel Burnham Lambert Inc. With Drexel under a cloud, the market fears it will be forced to withdraw from the high-yield market or curtail its activities.

The bulge in the basic money supply was offset by evidence that the Federal Reserve reacted promptly to high overnight interest rates by providing ample reserves to the banking system.

"The events of the past few weeks indicate that the Fed is not undertaking policy reversal," said Henry Kaufman, chief economist at Salomon Brothers Inc.

The 30-year Treasury bond, the 7½-percent coupon issue that matures in 2016, closed Friday at 100¾, up from 99¾ a week earlier. Other issues showed extreme volatility but closed with gains of ⅜ point to 1⅜ points.

U.S. Consumer Rates

Nov. 21

Passbook Savings	5.50 %
Tax Exempt Bonds Bond Buyer 20-Bond Index	6.78 %
Money Market Funds Donoghue's 7-Day Average	5.34 %
Bank Money Market Accounts Bank Rate Monitor Index	5.50 %
Home Mortgage, FHLB average	10.43 %

Source: New York Times.

Federated Buys Back Stock for $195 Million

Los Angeles Times Service

NEW YORK — Federated Department Stores, for months the subject of takeover rumors, said it paid $195 million to buy back 2.2 million of its shares from "a single holder."

On Wall Street on Friday, the belief was that Federated had bought the stock from Dart Group in an effort to fend off a potentially unfriendly takeover by the East Coast company.

Mutual Funds

Figures as of close of trading Friday Oct. 21

NEW YORK (AP) — The following quotations, supplied by the National Association of Securities Dealers, Inc., are the prices at which these securities could have been sold (Net Asset Value) or bought (value plus sales charge) Friday.

[illegible]

NL — No initial sales load. f — Previous day's quote. r — Redemption charge may apply. x — Ex dividend.

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NASDAQ National Market

OTC Consolidated trading for week ended Friday. Oc. 21

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

(Continued on next page)

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by Hebe Dorsey

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هكذا منه الأصل

Wall Street Review

AMEX Most Actives

	Vol.	High	Low	Last	Chg.
Wickes	93283	4½	3¾	4⅛	—⅜
ACI Hld	20045	14⅞	13⅞	14¼	+3⅞
LorTel n	15712	20⅞	18⅛	18½	—2⅛
ACI pf	12184	14⅞	13	13⅞	+1⅛
WangB	10716	12⅛	11⅞	12	+⅜
EchoB g	10244	21¾	20¼	20⅞	—1⅛
HmHar	10228	16⅛	12⅞	13¾	—2⅜
Alza s	10089	19⅞	16⅞	19⅞	+1½
InfThr	9115	1¼	1	1⅛	
BAT	8892	6½	6¼	6⅞	—⅜
Hasbr s	8345	24	22¾	23⅞	
TexAir	8266	27⅛	24⅛	26	—1⅛
TrnBd pf	8232	8¾	8⅛	8¼	—⅛
ICH pf	7928	24⅞	23	23¼	—1⅛
Amdahl	7673	21¾	20⅛	21⅛	—⅜
FAusP n	7663	8¾	8⅜	8⅝	+¼
HmeGp	7453	18⅞	17	18½	+⅛
DataPd	7343	13	11⅞	12½	—⅜
JneInt n	6896	16	15¾	16	
PhilLD	6198	12½	10⅝	11⅛	—1⅜
ICH s	6173	23⅝	20½	22⅝	—⅝
AM Intl	6148	5⅝	5⅜	5⅝	—⅛
Atari n	5823	14⅞	12½	13½	—⅜
NYTme s	5608	37	34½	36¾	+1¼
GeoRes	4901	11⅞	11	11¼	

NYSE Most Actives

	Vol.	High	Low	Last	Chg.
USX	197124	22⅞	19¾	21½	—1⅞
CocCE n	185670	16⅝	16½	16½	
Goodyr	161407	47¼	40⅞	43⅛	—5⅛
AT&T	159184	26⅞	24⅝	26⅜	+1⅜
Gillet s	124643	65⅞	52⅞	56⅝	—11⅞
IBM	[illegible]	[illegible]	[illegible]	123¼	+1⅞
Bevrly s	80214	21⅛	15⅞	17	—4⅞
EKodk	66157	69½	64¼	69	+2⅛
Trnwld s	58521	40⅝	35½	38⅛	—2
Lockhd	56110	53¼	46⅞	51¼	—4
SFeSoP	55886	34½	32¾	34	—⅜
BallyMf	53224	22½	19⅞	21⅛	+⅜
ConHll	53192	5⅞	5⅛	5¼	—⅛
CPC Int	52734	77¾	69⅛	77⅛	+⅞
Mobil	52354	40½	37¾	39⅞	—⅛
MayDS s	51274	37¾	34⅝	37⅜	+1⅝
GTE	51133	62	56⅝	57⅞	—1⅛
Viacm s	51117	43¼	37⅛	39½	—3⅞
LearSg	49285	91¾	71⅞	82	—10
NiaMP	49221	18½	17⅞	18⅛	+⅛
Exxon	48655	70⅝	67	70	+⅛
AmExp	48356	58⅛	54½	57⅝	+1⅛
GMot	48084	73¾	68⅞	73⅝	+3⅞
ArchD s	47831	22½	19⅞	21⅛	—1⅛
GenEl	47695	79½	74⅝	79	+2⅝

AMEX Diaries

	This Wk	Last Wk
Advanced	267	325
Declined	494	409
Unchanged	158	189
Total Issues	919	923
New Highs	21	30
New Lows	69	45

NYSE Diaries

	This Wk	Last Wk
Advanced	792	857
Declined	1167	1089
Unchanged	259	268
Total Issues	2218	2214
New Highs	186	160
New Lows	89	45

AMEX Sales

	Sales Vol.
Total for week	56,020,000
Week ago	54,310,000
Year ago	51,220,000
Jan 1 to date	2,472,280,000
1985 to date	1,806,100,000
AMERICAN BONDS a	
Total for week	17,334,000
Year ago	20,940,000

NYSE Sales

	Sales Vol.
Total for week	848,570,000
Week ago	736,840,000
Year ago	623,470,000
Two years ago	398,500,000
Jan 1 to date	31,847,953,930
1985 to date	24,260,459,060
1984 to date	20,872,760,000

NASDAQ National Market

OTC Consolidated trading for week ended Friday. Oct. 21

[illegible]

AIRCRAFT: *North American Is Facing Lean Times*

(Continued from first finance page)

of the airplane business," he said.

Even without a new production program, North American will not be totally without business. Once production of the B-1 concludes with the delivery of the 100th aircraft in mid-1988, an after-market for spare parts, modifications and engineering support will continue to provide a substantial business for years to come, Sam F. Iacobellis, North American's president, said.

That after-market, coupled with a handful of smaller programs, is likely to generate $1 billion in business annually, Mr. Iacobellis said in an interview recently.

Even so, the decline of the B-1 will pose a serious challenge to Rockwell in terms of maintaining corporate sales and earnings growth. Aircraft is the largest single component of the company's sales and profits, representing 31 percent of Rockwell's $9.3 billion in sales in 1985 and 42 percent of its $1.2 billion in operating income. B-1 revenue will peak in 1986 at $3.9 billion and decline by 10 percent in 1987.

"There's about $3 billion to recoup in B-1 sales," Mr. Anderson said. "We probably can't pick up all of that."

Under Mr. Anderson's term as chief executive, Rockwell has posted 11 years of consecutive record earnings, and he said the company has a "good chance" at maintaining earnings growth, despite lower sales.

"We are dedicated as a management team to doing it," Mr. Anderson remarked. He said new accounting standards that the company must adopt under law will add $190 million in profits annually to the bottom line.

In many ways, Rockwell is better equipped to weather a lean period than most aircraft companies, owing to its diversification.

In addition to aircraft, Rockwell does a substantial government business in satellites, electronics, tactical missiles and manned spacecraft. It also makes auto components, commercial electronic devices and a broad group of other products, such as gas meters, newspaper printing presses and industrial sewing machines.

Lacking a large aircraft program, the company is likely to divest some of its aircraft production assets, Donald R. Beall, Rockwell's president, said.

The company has substantial aircraft production facilities in Palmdale and Los Angeles; Tulsa, Oklahoma, and Columbus, Ohio. Rockwell has a sprawling industrial complex near Los Angeles International Airport, consisting of no fewer than 18 facilities.

"We will be looking at significantly reducing our capacity in El Segundo," Mr. Beall said. "We will have to [have reductions in] El Segundo, for sure." That plant now has 7,200 workers.

In addition, Mr. Beall foresees further reductions in Columbus (6,400 employees) and to a lesser extent in Tulsa (4,300 employees).

The last reduction would be in Palmdale, the huge assembly and fabrication complex that the company built specifically for the B-1 and that now employs 7,500. The Palmdale facility is the most modern aircraft production site in the United States.

In terms of manpower at its four production sites, North American will drop from the 25,500 employees it now has to 15,600 at the end of 1987, Mr. Iacobellis said.

Mr. Iacobellis, among many others at Rockwell, finds the current winding down particularly painful, given the company's performance on the B-1. So far, it has met a rigorous delivery schedule and budget on a controversial program that critics predicted would run into trouble.

But the magazine U.S. News & World Report reported last week that the B-1 was beset by problems, including excess weight and a leaky fuel tank. The magazine said cost estimates for bringing the plane up to specifications ranged into the billions of dollars.

In Rockwell's view, North American remains one of the pre-eminent U.S. aircraft makers.

CREDIT: *Rhône Flooded*

(Continued from first finance page)

points if the underwriters were unable to resell the paper.

The facility is clearly designed as an insurance policy to protect against a radical shift in market sentiment since the Bank of Tokyo currently issues CDs at around 9 basis points below the London interbank *bid* rate.

The structure includes what Merrill Lynch, which arranged the facility, calls a specialized dealership system whereby any of the 10 underwriters can propose custom-tailored terms to Bank of Tokyo for CDs of much longer maturity — up to five years — and in any currency, fixed or floating rate.

In the syndicated loan market, Algeria has finally settled on terms and an eight-bank management group led by Banque Nationale de Paris is now marketing a $250-million, eight-year loan for Banque Nationale d'Algérie. Interest will be set at ⅝ point over Libor, a significant increase over two previous loans on which it paid a margin of ⅜ point and a split ¼-⅜.

The front-end fee has also risen, to ⅜ percent from ¼ percent.

Syndication of the $300-million credit for Vneshtorgbank, the Soviet foreign trade bank, was completed last week with $120 million raised from 18 banks.

— CARL GEWIRTZ

American Exchange Options

Figures as of close of trading Friday. Oct. 21

[illegible]

Chicago Exchange Options

Figures as of close of trading Friday. Oct. 21

[illegible]

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Treasury Bonds

Nov. 21

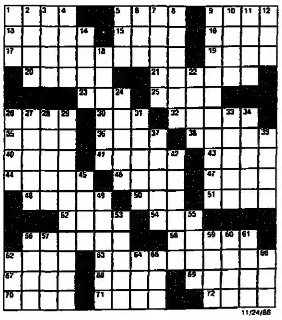
Maturity	Close Bid	Close Ask	Yield	Wk.-ago yield
31.10.88	100 2/32	100 4/32	6.20	6.30
15.8.89	99 29/32	99 31/32	6.40	6.48
30.9.90	100 18/32	100 20/32	6.57	6.69
11.15.91	99 3/32	99 5/32	6.71	6.79
15.10.93	100 22/32	100 24/32	6.99	7.09
15.5.96	100 20/32	100 22/32	7.16	7.26
15.2.06	116 18/32	116 20/32	7.70	7.81
15.5.16	100 23/32	100 25/32	7.44	7.52

Source: Salomon Inc.

Israeli Hong Kong Office

Agence France-Presse

JERUSALEM — The Ministry of Trade and Industry has decided to place a special representative in Hong Kong to facilitate economic exchanges between Israel and the Far East, a spokesman announced here Sunday.



11/24/86

ACROSS

1 More's antithesis
5 Poker-pot item
9 Express shock
13 Group of eight
15 Repair argyles
16 Margarine
17 Poe short story
19 German song
20 Lincoln Center attraction
21 Residue of combustion
23 Okla. city
25 Joint down below
26 Dance popular in the 30's
30 March 15, in Roma
32 Sea birds
35 Metric unit, for short
36 "The —— Tailors," Sayers book
38 Flattop's milieu
40 Graven image
41 Meir
43 "Comus" composer
44 Takes care of
46 Droops
47 Fashionable beach resort
48 Stitched
50 Affirmative vote
51 Charges
52 Salt's story
54 Poorly lit
56 Dwarfed shrub
58 Marner or Lapham
62 Monkey or tree
63 Girl in a nursery tale
67 Scraps
68 "Wind nobody blows good"
69 Pyle or Banks
70 Land of Esau's descendants
71 Latest reports
72 Depression

DOWN

1 House locale
2 Repeat
3 Kind of mother or child
4 Wise person
5 Total
6 Collar
7 Commercial vehicle
8 Auto's heart
9 Aaron creation
10 "Shall Caesar send ——?"
11 Soothsayer
12 Seed holder
14 Copperfield's first wife
18 Bill of ——
22 Roman fiddler
24 Goodbye, in Granada
26 Short sketch
27 Secretes
28 Unaccompanied
29 "Include me out," for one
31 Dental filling
33 Causing goose pimples
34 Jockey Earl
37 Rimmed
39 Modernists
42 St. Francis of ——
45 Red and Coral
49 Loser to St. George
53 Daughter of Tantalus
55 Distance of 5,280 feet
56 Kind of dog or louse
57 Preminger
59 Olivier's title
60 Teen woe
61 Flimflam
62 Nail holder
64 Depressed
65 —— Moines
66 Defeat at bridge

© New York Times, edited by Eugene Maleska.

DENNIS THE MENACE

"YUP, FIVE YEARS OLD IS A VERY GOOD AGE FOR BOYS!"

WEATHER

EUROPE	HIGH C	HIGH F	LOW C	LOW F	
Algarve	18	64	11	52	cl
Amsterdam	8	46	4	39	r
Athens	16	61	10	50	o
Barcelona	15	59	9	48	o
Belgrade	12	54	6	43	o
Berlin	9	48	6	43	o
Brussels	7	45	5	41	cl
Bucharest	—	—	—	—	na
Budapest	7	45	3	37	o
Copenhagen	7	45	6	43	r
Costa Del Sol	18	64	15	59	cl
Dublin	7	45	4	39	r
Edinburgh	9	48	5	41	r
Florence	13	55	10	50	r
Frankfurt	9	48	6	43	r
Geneva	9	48	6	43	o
Helsinki	5	41	3	37	r
Las Palmas	22	72	16	61	cl
Lisbon	15	59	11	52	o
London	10	50	3	37	cl
Madrid	14	57	9	48	cl
Milan	9	48	8	46	r
Moscow	1	34	0	32	o
Munich	8	46	6	43	r
Nice	14	57	11	52	o
Oslo	6	43	4	39	r
Paris	8	46	5	41	o
Prague	7	45	5	41	r
Reykjavik	2	36	-1	30	cl
Rome	17	63	13	55	r
Stockholm	6	43	4	39	r
Strasbourg	7	45	5	41	o
Venice	11	52	9	48	r
Vienna	7	45	5	41	r
Warsaw	8	46	5	41	o
Zurich	7	45	5	41	sh
MIDDLE EAST					
Ankara	12	54	-7	19	fr
Beirut	—	—	—	—	na
Cairo	21	70	12	54	fr
Damascus	17	63	1	34	fr
Istanbul	12	54	6	43	fr
Jerusalem	18	64	6	43	fr
Tel Aviv	21	70	9	48	cl
OCEANIA					
Auckland	19	66	14	57	r
Sydney	21	70	12	54	fr

ASIA	HIGH C	HIGH F	LOW C	LOW F	
Bangkok	31	88	23	73	cl
Beijing	1	34	0	32	sw
Hong Kong	24	75	20	68	cl
Manila	32	90	26	79	st
New Delhi	27	81	12	54	fr
Seoul	17	63	3	37	fr
Shanghai	19	66	10	50	o
Singapore	27	81	25	77	st
Taipei	25	77	21	70	r
Tokyo	15	59	10	50	fr
AFRICA					
Algiers	20	68	15	59	o
Cape Town	30	86	15	59	fr
Casablanca	18	64	13	55	r
Harare	30	86	18	64	cl
Lagos	28	82	26	79	o
Nairobi	23	73	14	57	o
Tunis	19	66	14	57	cl
LATIN AMERICA					
Buenos Aires	28	82	12	54	cl
Caracas	25	77	18	64	cl
Lima	23	73	17	63	o
Mexico City	25	77	—	—	pc
Rio de Janeiro	35	95	24	75	fr
NORTH AMERICA					
Anchorage	-6	21	-11	12	cl
Atlanta	19	66	6	43	pc
Boston	9	48	0	32	pc
Chicago	7	45	5	41	sh
Denver	7	45	-5	23	pc
Detroit	3	46	2	36	sh
Honolulu	29	84	21	70	fr
Houston	24	75	19	66	st
Los Angeles	29	84	16	61	fr
Miami	28	82	21	70	pc
Minneapolis	0	32	-17	1	pc
Montreal	-1	30	-11	12	fr
Nassau	30	86	20	68	fr
New York	11	52	4	39	pc
San Francisco	18	64	10	50	fr
Seattle	12	54	8	46	r
Toronto	0	32	-6	21	fr
Washington	14	57	7	45	pc

cl-cloudy; fo-foggy; fr-fair; h-hail; o-overcast; pc-partly cloudy; r-rain; sh-showers; sw-snow; st-stormy.

MONDAY'S FORECAST — CHANNEL: Heavy. FRANKFURT: Showers. Temp. 7—2 (45—36). LONDON: Rain. Temp. 10—6 (50—43). MADRID: Fair. Temp. 15—8 (59—46). NEW YORK: Partly cloudy. Temp. 12—8 (54—46). PARIS: Rain. Temp. 11—4 (52—39). ROME: Overcast. Temp. 18—14 (64—57). TEL AVIV: Na. ZURICH: Showers. Temp. 8—4 (46—39). BANGKOK: Mist. Temp. 31—21 (88—70). HONG KONG: Cloudy. Temp. 23—19 (73—66). MANILA: Showers. Temp. 32—24 (90—75). SEOUL: Rain. Temp. 16—4 (61—39). SINGAPORE: Thunderstorms. Temp. 31—23 (88—73). TOKYO: Rain. Temp. 15—9 (59—48).

SPORTS

SPORTS BRIEFS

Czech Holikova Said to Seek Asylum in U.S.

MINNEAPOLIS (AP) — Tennis player Andrea Holikova of Czechoslovakia, who won the Wimbledon junior title in 1985, has applied for political asylum in the United States, according to a spokeswoman for the Minnesota North Stars of the National Hockey League.

The North Stars helped Holikova's boyfriend, defenseman Frantisek Musil, defect from Czechoslovakia in July. Holikova, 18, is in the United States on a visa that does not expire until the end of December but was told by her parents that she might not be allowed to leave Czechoslovakia again "when she called them about a week and a half ago," Sue Thomas of the North Stars said Friday. "So then we put her in touch with Senator [Dave] Durenberger's office" and Holikova later met with officials of the U.S. Immigration and Naturalization Service.

NFL Plans to Test Players for Steroids

NEW YORK (AP) — The National Football League plans to begin testing for steroids when players report to training camp in 1987, a league spokesman said.

Although the NFL bans the use of steroids, which build muscle but have serious side effects, it has not tested for them. "We needed to wait until a methodology could be developed by the labs to give us results in a reasonable amount of time," league spokesman Joe Browne said Friday.

Dr. Forrest Tennant, who heads the NFL drug program, said that college seniors will be tested in January at the annual National Football Scouting Combine workouts.

Pinango Retains WBA Bantamweight Title

JOHANNESBURG (AP) — Bernardo Pinango of Venezuela retained his World Boxing Association bantamweight title Saturday night with a 15th-round technical knockout of challenger Simon Skosana of South Africa.

Although ahead on points, Skosana was hampered by a cut over his left eye that began bleeding badly in the eighth round. In the last round, the cut was torn wide open and Skosana, after being checked by a doctor and allowed to continue, was floored by a combination of punches.

South Africa was suspended last month by the WBA, the only international boxing organization to which it still belonged, because of its racial segregation system of apartheid. This fight was allowed to proceed because it had already been scheduled.

Long-Shot British Horse Wins Japan Cup

FUCHU, Japan (AP) — Long-shot Jupiter Island edged Allez Milord in the last 1½ furlongs Sunday to win a photo finish between two British horses in the sixth annual Japan Cup international horse race.

Miho Shinzan of Japan was third, 1¼ lengths back, with Rugby Ball of Japan fourth and Waverley Star of New Zealand fifth in the field of 14. Of the other foreign entries, Carotene of Canada was ninth, prerace favorite Triptych of France was 11th, Flying Pidgeon, the lone U.S. entry, was 12th and Tommy Way of Britain 13th.

Gretzky Registers His 500th Goal in NHL

Compiled by Our Staff From Dispatches

EDMONTON, Alberta — Wayne Gretzky victimized rookie goaltender Troy Gamble for two goals and then scored into an empty net in the final minute for the 500th goal of his National Hockey League career as the Edmonton Oilers beat the Vancouver Canucks, 5-2, here Saturday.

With his customary flair for setting records in spectacular fashion, Gretzky sensed the opportunity to

NHL FOCUS

reach the milestone at home when Vancouver announced plans to start Gamble in his NHL debut.

"This morning I knew they were playing the young goalie ... and I knew it would be a good night for Wayne Gretzky," he said. "It's pretty exciting to hit the 500 plateau, but it will be really exciting to hit 600, 700 and 800," he said. "Very few players have done it."

Gretzky, who already had two goals and two assists in the game, fired a shot from center ice into an empty net with 18 seconds left to record No. 500. The goal came in his 575th game, breaking the record of 647 set last year by Mike Bossy of the New York Islanders.

Gretzky scored from behind the net on the first shot of the game at the 97-second mark against Gamble, who had been called up from the juniors to replace the injured Richard Brodeur. Gretzky added his 499th goal on a slap shot at 1:40 of the second period, giving Edmonton a 2-0 lead. He played four-minute shifts in the third period in an effort to reach the milestone at home (the Oilers' next game is in Calagary on Monday night), but couldn't connect until Vancouver removed Gamble for an extra skater.

"I faked the shot then went left at center ice and shot," Gretzky said. "I thought it was going wide, but the puck hit on edge and kicked left and went in. I had a lot of chances and I really wanted to get it at home."

Gretzky may never forget No. 500, but Gamble, 19, who joined the Canucks Saturday from the Medicine Hat Tigers, will never forget Nos. 498 and 499.

Doug Shanks/Reuters-United Press International

Edmonton's Wayne Gretzky: "I really wanted to get it at home."

"I was trying to come out to cover the angle, and when I saw it was him it was pretty scary in my first game," Gamble said. "I was pretty awestruck. He's the best player ever. Then on the second goal, I didn't respect his shot enough. I will now."

Gamble said he was not aware of Gretzky's scoring situation until after the final goal. "I didn't know until I saw them leaving the bench and saw the sign on the scoreboard. It's a great achievement for him."

How did he feel about being on the bench when it was scored? "I didn't want my claim to fame to be Gretzky's 500th goal."

Gretzky, 25, broke into the league in 1979-80 after four World Hockey Association teams, including Edmonton, merged with the NHL. Because he played one WHA season for Indianapolis and Edmonton, he was ineligible for the NHL's rookie of the year trophy. He has since won six Art Ross Trophies as the league's scoring leader, seven Hart Trophies as the most valuable player and the 1985 Conn Smythe Trophy as the playoff MVP.

The 6-foot (1.82-meter), 170-pound (77.1-kilogram) native of Brantford, Ontario, holds or shares 42 individual NHL records.

His next milestone is goal No. 546 — a number that confounded many until Gretzky explained its relevance to his childhood idol and current friend, Gordie Howe. For Howe, No. 545 meant he had surpassed former Montreal Canadien great Maurice (Rocket) Richard.

"I remember Gordie was really excited to score his 545th goal, so my 546th will be a big one for me," Gretzky said. *(UPI, AP)*

BOOKS

VOYAGERS TO THE WEST: A Passage in the Peopling of America on the Eve of the Revolution

By Bernard Bailyn, with the assistance of Barbara DeWolfe. Illustrated. 668 pages. $30. Alfred A. Knopf, 201 East 50th Street, New York, N. Y. 10022.

Reviewed by John Gross

AT the time of the Declaration of Independence nearly one American in 10 had arrived in British North America within the previous 15 years. After the war of 1756-60, with French rivalry no longer a threat, there had been a sharp increase in the rate of immigration to the American colonies. The figure of about 221,500 new arrivals for the period 1760-75 compares with an estimated 700,000 for the entire century and a half before 1760.

This flow of population is a historical fact of major importance. As Bernard Bailyn observes in "Voyagers to the West," it has been overshadowed by the political struggle of the period leading up to the American Revolution, but even without that struggle it would inevitably have altered the relationship between Britain and America.

"Voyagers to the West" is the first installment of a multivolume work entitled "The Peopling of British North America." In a brief introductory volume published earlier this year Bailyn made out a forceful case for the timeliness of such an undertaking. In recent years, he argued, previous interpretations of the subject have broken down under the accumulation of new material — "and consequently what is most urgently needed is not, at the moment, more technical studies but a fresh look at the whole story."

After this, it may come as rather a surprise that in "Voyagers to the West" Bailyn concentrates on a relatively narrow swath of time. But if he has chosen to do so, it is because this enables him to take advantage of a unique source of information.

America's demographic gain was Britain's loss — at any rate, British landlords and officials became increasingly concerned during the 1760s about the consequences of depopulation. By 1773 there were rumors of an impending ban on all emigration to North America, but the outcry that this talk provoked persuaded the government to defer any action until more facts were available. It was decided that in the first instance customs officers in England and Scotland should keep a record of everyone embarking for the colonies, including details about place of origin, occupation, reasons for leaving and intended destination.

These procedures were introduced in December 1773 and remained in force until March 1776 (though there were only a handful of departures from Britain for America after September 1775). The results were tabulated in a register — which has been preserved in the Public Record Office in London — listing nearly 10,000 migrants; according to Bailyn, "there is no other body of immigration data comparable in detail and comprehensiveness for the entire first two centuries of American history."

Although Bailyn makes no claim to have discovered the register, he is apparently the first historian to have analyzed it systematically — taking into account its defects, making use of a computer and drawing on a wide range of secondary sources to amplify his findings. He begins with a quantitative analysis, from which two conclusions emerge with particular clarity.

In the first place, the register records two distinct types of emigration, one drawn mainly from London and its environs and the other from the north of England (notably Yorkshire) and Scotland. The typical metropolitan emigrant was a young man without family ties, usually an artisan or craftsman. The northern exodus, by contrast, generally involved the departure of entire families — farming families, for the most part — with large numbers of women and children.

At the same time neither migration seems to have been the product of despair. While the records testify to pressing problems and anxieties (in particular those caused by the often savage rise in agricultural rents), Bailyn concludes that "nowhere does one find signs of the mass evacuation of a rootless rural proletariat or of an untrained urban slum population."

Admittedly nearly half the emigrants, predominantly from the London region, were unable to pay for their transportation and went out as indentured servants, facing four years or more of bonded labor. The members of this group were not questioned about their purposes in migrating — but at least it is clear that most of them had served an apprenticeship or learned a trade.

Bailyn devotes a good deal of space to examining the ways in which young artisans, both indentured and free, were recruited to serve the growing demands of the American economy, above all in Pennsylvania, Maryland and Virginia. He also provides a selection of revealing newspaper announcements about runaway indentured servants, accompanied by plausible sketches of what they may have looked like by a painstaking illustrator, Richard Schlecht.

Bailyn already enjoys a high reputation as the author of "The Ideological Origins of the American Revolution" and many other contributions to early American history. His new book suggests that, when it is complete, "The Peopling of British North America" may rank as his most impressive achievement.

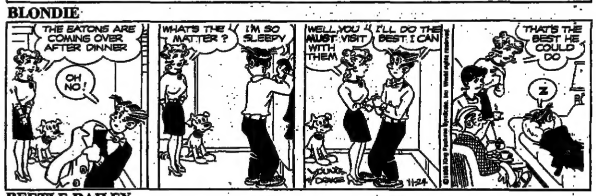
John Gross is on the staff of The New York Times.

Solution to Friday's Puzzle

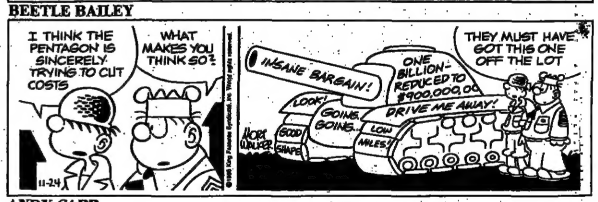
11/22/86

PEANUTS

BLONDIE



BEETLE BAILEY

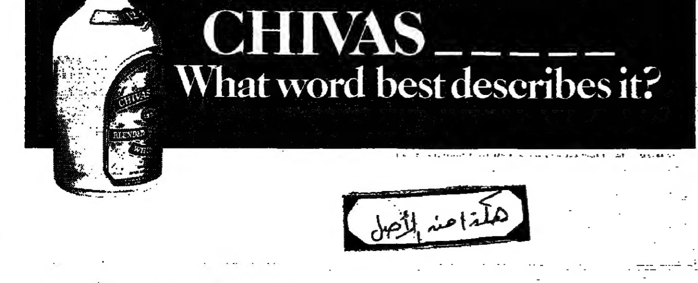


ANDY CAPP

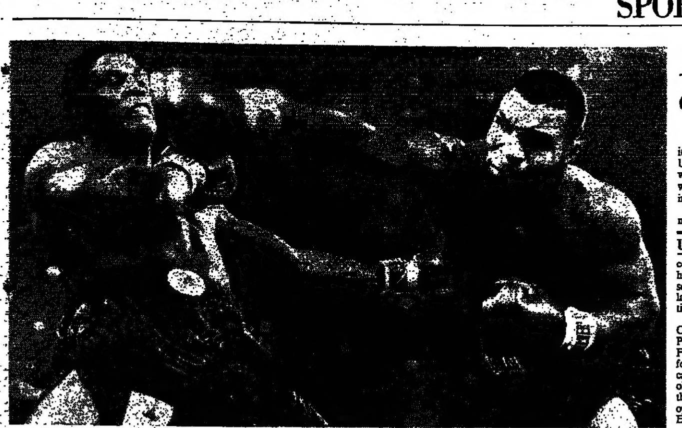
WIZARD of ID

REX MORGAN

GARFIELD



SPORTS



Douglas C. Pizac/The Associated Press

Tyson, With 2d-Round TKO of Berbick, Makes Heavyweight History

Mike Tyson, above right, became the youngest man ever to win a heavyweight boxing title by knocking Trevor Berbick down twice and stopping him at 2:35 of the second round Saturday night in Las Vegas to take the World Boxing Council crown. Tyson, who turned 20 at the end of June, decked Berbick with a right 19 seconds into the round and ended things with a left hook to the jaw (Berbick went down, got up and then toppled back into a neutral corner; the referee ruled he could not continue). Tyson improved to 28-0 with 26 knockouts. Berbick fell to 31-5-1. "I'm the youngest champion," commented Tyson, "and I'll be the oldest."

Penn State Goes 10-0 on 34-14 Rout of Pitt

Oklahoma Nips Nebraska in Final Seconds; Michigan Downs Ohio State by 2

The Associated Press

NEW YORK — Penn State put itself in position Saturday win the U.S. college football championship with a 34-14 rout of Pittsburgh, which earned the Nittany Lions an invitation to the Fiesta Bowl.

Second-ranked Penn State (11-0) made Joe Paterno only the second

U.S. COLLEGE FOOTBALL

coach in modern college football history to produce six regular-season undefeated, untied teams. The late Paul (Bear) Bryant is the all-time leader with seven.

If No. 1 Miami beats 2-8 East Carolina on Thanksgiving Day, Penn State will play Miami in the Fiesta Bowl on the night of Jan. 2 for the national title. If the Hurricanes should be upset by East Carolina, the Nittany Lions could go to the Orange Bowl, which has left open a spot until after the Miami-East Carolina game.

Oklahoma won the other berth in the Orange Bowl on Saturday by rallying to defeat Nebraska, 20-17, and Michigan gained the Rose Bowl by edging Ohio State, 26-24, for the Big Ten Conference title. Ohio State will play in the Cotton Bowl, while Nebraska is headed for the Sugar Bowl. Their opponents have yet to be decided *(See Scoreboard).*

In University Park, Pennsylvania, Blair Thomas's 91-yard kickoff return and D.J. Dozier's 26-yard touchdown run got Penn State going in the first half after Pitt (5-5-1) drove 80 yards on nine plays to go ahead, 7-3, late in the first period.

Thomas returned the next kickoff for a TD and the Nittany Lions never looked back, although they lost quarterback John Shaffer with a hand injury.

"They wanted another shot at the national championship," said Paterno, whose team lost to Oklahoma in the Orange Bowl last New Year's Day. "And they've got it."

Oklahoma 20, Nebraska 17: In Lincoln, Nebraska, tight end Keith Jackson caught a 17-yard touchdown pass for the No. 3 Sooners with 82 seconds to play and his one-handed, 41-yard catch set up Tim Lashar's game-winning 31-yard field goal with six seconds left.

The Sooners won the Big Eight title and a third straight trip to the Orange Bowl after trailing by 17-7 entering the final period. The No. 5 Cornhuskers finished third in the conference because they lost, 20-10, to Colorado last month and wound up 5-2 in the Big Eight to Colorado's 6-1. It was the first time in 10 years Nebraska had not finished first or second.

Michigan 26, Ohio State 24: In Columbus, Ohio, the No. 6 Wolverines tied the No. 7 Buckeyes for the Big Ten title and won a trip to the Rose Bowl as Jamie Morris rushed for 210 yards and two touchdowns.

Ohio State led, 14-6, at halftime but Michigan scored on its next three possessions to take a 26-17 lead. After Ohio State drove to the Michigan 28 with a minute left, placekicker Matt Frantz missed on a 46-yard field goal try.

LSU 21, Notre Dame 19: In Baton Rouge, Louisiana, freshman Tom Hodson threw three scoring passes for No. 8 Louisiana State. After Notre Dame closed to 14-13 on Tim Brown's 96-yard kickoff return and John Carney's two field goals, Hodson drove LSU 79 yards and threw a four-yard TD pass to tight end Brian Kinchen midway through the last quarter.

UCLA 45, USC 25: In Pasadena, California, Gaston Green rushed for a career-high 224 yards and a school record-tying four touchdowns as the No. 18 Bruins, who held a 38-0 lead in the third quarter, upset No. 10 Southern Cal.

Arkansas 41, SMU 0: In Irving, Texas, quarterback Greg Thomas gained 116 yards on 16 carries, with touchdowns of 4, 1 and 23 yards, for the No. 11 Razorbacks. It was the first time since 1964 that Southern Methodist, barred from a postseason game because of NCAA probation, had been shut out twice in a season; it opened with a 30-0 loss to Arizona State.

Washington 44, Washington State 23: In Pullman, Washington, quarterback Chris Chandler threw four touchdown passes, three to Brian Slater, and placekicker Jeff Jaeger set an NCAA field goal record with three successful kicks for the No. 12 Huskies. Jaeger's four-year field-goal total is 80, one more than the mark set last year by UCLA's John Lee.

California 17, Stanford 11: In Berkeley, California, freshman Mike Ford set up the first touchdown against No. 16 Stanford with a 61-yard pass reception and in the fourth quarter scored from 47 yards on an end-around play. Cal Coach Joe Kapp, fired two weeks earlier, was carried off the field by his players after the Bears ended an eight-game losing streak.

Penn 31, Cornell 21: In Ithaca, New York, Jim Crocicchia threw two touchdown passes as 10-0 Pennsylvania won its third consecutive Ivy League crown and recorded its first perfect season since 1904.

Temple 29, Rutgers 22: In Piscataway, New Jersey, Temple tailback Paul Palmer gained 89 yards rushing and 82 on kickoff returns to set an NCAA single-season record for all-purpose yardage. His 2,633 yards broke the record of 2,559 set by Marcus Allen of USC in 1981.

Harvard 24, Yale 17: In Cambridge, Massachusetts, sophomore Tom Yohe passed to George Sorbara for touchdowns on plays covering 10 and 53 yards, rallying Harvard to victory in the 103d renewal of the Ivy League rivalry.

Mark Duncan/The Associated Press

Ohio State's Chris Carter outmaneuvered Erik Campbell for a first-period touchdown on Saturday, but a strong second half gave Michigan a 26-24 victory and a berth in the Rose Bowl.

Australia IV Group Sees Pressure Increasing

By Ruth Youngblood

United Press International

FREMANTLE, Australia — The pared-down Australia IV campaign warned the 12 challenger hopefuls to expect formidable competition for the America's Cup, despite predictions Saturday by experts that New Zealand will win the coveted prize.

With world-champion Australia III out of the defender series, Warren Jones, executive director of Alan Bond's syndicate, said, "As from today, we are even more potent. Australia IV is our weapon, and Australia III is now the tool to make sure our weapon is as effective as possible."

While the top Bond boat underwent speed-enhancing modifications, a panel of experts picked New Zealand as most likely to wrest the oldest trophy in sports history from Perth.

With the final challenger round-robin series scheduled to begin Dec. 2, Jock Sturrock (skip-

AMERICA'S CUP

per of Gretel in Australia's first cup challenge in 1970) warned the front-runner to expect unprecedented pressure when the ranks are culled to four participants in the semifinals Dec. 28.

With 66 points gleaned from 22 victories and only one loss, New Zealand's KZ7, the only fiberglass entry, has 66 points. The New York Yacht Club's America II is second among challengers with 61 and Dennis Conner's Stars & Stripes clings to a third at 46.

The golden-hulled Kookaburra III is dominating the defender races, with 29 points after the first two rounds. Australia IV, the boat Bond is depending on to defend the trophy he won in 1983, is second with only 20 points, one more than Kookaburra II.

The panel of experts — including 1983 winning skipper John Bertrand, Canadian yacht designer Bruce Kirby, veteran tactician Gary Jobson — was particularly critical of Conner's absences during the breaks. The skipper is back home in San Diego tending to business and fund-raising efforts.

"Though Conner is still clearly the most skilled and experienced helmsman in Fremantle," Sturrock said, "his absence has been reflected in low ratings in the categories of motivation, team spirit and overall administration. This has been reflected in errors on the course."

The panel gave the defender's nod to the Kookaburra campaign and said the same fate that has befallen Conner has occurred with Australia IV. "Obviously, the new boys have no respect for the experience gained by Conner and Bond," Sturrock said, referring to the 1983 series when Bond's Australia II ended 132 years of U.S. domination of the sport.

Giants Stun Broncos, 19-16

The Associated Press

EAST RUTHERFORD, New Jersey — Raul Allegre kicked a 34-yard field goal with six seconds to play Sunday as the New York Giants beat the Denver Broncos, 19-16, in a game between division

NFL ROUNDUP

leaders in the National Football League. It was Allegre's fourth field goal of the game and his second game-winner in as many weeks.

The kick came at the end of an eight-play, 55-yard drive in the final two minutes, during which Phil Simms passed 24 yards to Bobby Johnson on a third down and 46 yards to Phil McConkey to put the ball at the Denver 15 with 28 seconds left.

After two running plays, Allegre, who kicked five field goals the previous week against Minnesota, gave the Giants their fifth straight victory. His other field goals were from 31, 45 and 46 yards. Rich Karlis kicked field goals of 40, 32 and 42 yards for Denver.

The Broncos had driven 73 yards in nine plays to tie the score at 16 with 1:55 left. Sammy Winder, sent to the sidelines a little woozy three plays earlier, swept right for the last four yards.

New York had taken a 10-6 lead just before halftime when defensive end George Martin made a one-handed interception of a pass by John Elway and returned it 78 yards for a touchdown. Along the way, Martin faked a lateral to linebacker Lawrence Taylor, broke a tackle by Elway and jumped over a fallen Winder at the Denver 15.

Bears 12, Green Bay 10: In Chicago, Kevin Butler's 32-yard field with 2:37 to play beat Green Bay in a vicious 133d renewal of the teams' rivalry.

The winning kick came shortly after Dave Duerson recovered Gary Ellerson's fumble at the Green Bay 34-yard line. With Walter Payton carrying three times, the Bears moved to the 14 to set up the winning field goal.

It came after the Packers had taken a 10-9 lead on Randy Wright's 46-yard touchdown pass to Ed West. West caught the pass against Duerson.

The Bears' Jim McMahon, who had missed three straight games because of a shoulder injury, extended his streak to 23 straight starting victories but was ineffective for the most part. He was 12-of-33 passing for 95 yards and was intercepted three times. He was replaced in the fourth quarter by Mike Tomczak.

The Bears' defense accounted for nine points on a safety and a blocked punt. Dennis Gentry recovered the punt, blocked by Shaun Gayle, in the end zone in the second quarter. That play came shortly after Green Bay's Charles Martin had flagrantly roughed McMahon and was ejected from the game.

The Bears' defense took charge quickly. Mike Richardson intercepted Wright on Green Bay's first play from scrimmage, at the Packer 32. The Bears got to the one before William (The Refrigerator) Perry came in, fumbled and John Dorsey recovered for the Packers. Three plays later Dan Hampton tackled Ken Davis in the end zone for a safety and a 2-0 Chicago lead.

Bengals 24, Vikings 20: In Cincinnati, running back Stanley Wilson scored twice during a 21-point first-quarter that helped the Bengals hand Minnesota its fourth loss in five games.

The Vikings played without Tommy Kramer, the top-ranked passer in the National Conference, who had a sprained thumb on his throwing hand. The Bengals' quarterback, Boomer Esiason, was 17-of-25 passing for 252 yards with one interception.

Neither team could stop the other in the first half, and each scored on its first three possessions. But the Bengals' defense, which yielded 236 yards and 18 first downs in the first 30 minutes, allowed Minnesota just one scoring threat after halftime. That ended when the Vikings gambled on fourth-and-one at the Cincinnati 15 and a sneak by quarterback Wade Wilson lost ground.

Browns 37, Steelers 31: In Cleveland, quarterback Bernie Kosar, two days shy of his 23d birthday, passed to rookie Webster Slaughter for a 36-yard touchdown with 8:23 left in overtime to beat Pittsburgh.

Kosar was 28-of-46 passing for 414 yards and two touchdowns, surpassing his career best of 401 yards achieved two weeks earlier against Miami.

Pittsburgh's Gary Anderson and Cleveland's Matt Bahr each kicked a field goals in the final two minutes of regulation to send the game into overtime. Bahr's 25-yard kick, atoning for two earlier misses, put Cleveland up, 31-28, with 1:51 to go. Anderson, however, kicked a 40-yarder with seven seconds left.

Lions 38, Bucs 17: In Tampa, Florida, Joe Ferguson passed for 230 yards and two touchdowns for Detroit and rookie teammate Chuck Long threw for a 34-yard touchdown on his first NFL pass.

The Lions defense sacked Steve Young four times, intercepted two of his passes and recovered two fumbles by the Tampa Bay quarterback. Long, the Lions' No. 1 draft pick, entered the game with 2:06 left in the fourth quarter after Detroit recovered the Bucs' onside kick at their 40. After three running plays netted six yards, Long threw his touchdown pass to Leonard Thompson on fourth down.

Patriots 22, Bills 19: In Foxboro, Massachusetts, Tony Eason's 13-yard touchdown pass to New England rookie tight end Greg Baty with 1:40 left overcame Buffalo's rally from a 15-0 deficit.

The Bills, who had taken a 19-15 lead on Jim Kelly's 31-yard pass to Robb Riddick with 2:50 to go, had one last chance. But Ronnie Lippett got his AFC-leading eighth interception with 1:02 to play at the New England 22 on Kelly's pass to Chris Burkett.

Oilers 31, Colts 17: In Houston, Warren Moon passed for three touchdowns, two coming during a 21-point surge in less than four minutes of the third quarter against winless Indianapolis.

The Colts crossed the 50-yard line only once in the second half, when they were aided by 30 yards on two penalties against the Oilers.

World Series Foes Deliver a College Lecture

By Carolyn Lumsden

The Associated Press

AMHERST, Massachusetts — New York Met outfielder Mookie Wilson and Boston Red Sox second baseman Marty Barrett have asked University of Massachusetts students to put behind them a racial brawl that followed the final game of the World Series.

"In life there's some things you can't change," Wilson said at an assembly Friday.

"I was born ugly. I can't change that. . . . You can't change the way society was formed hundreds of years ago, but you can influence the way you treat people."

Barrett, who is white, and Wilson, who is black, were invited to speak to a lunch attended by 175 leaders of white and black student organizations.

The meal was followed by an assembly at which about 700 students, most of them white, packed an auditorium and 500 watched the speeches on TV monitors.

Wilson urged the audience to forget about the racial clash the night of Oct. 27. After the Mets defeated the Red Sox, 8-5, to win the seventh game of the World Series, 1,000 students gathered outside the Southwest dormitories on the campus. The ensuing brawl between mostly white Red Sox fans and mostly black Met fans sent more than a dozen students to the infirmary, police said.

"Life goes on," Barrett told the assembly. "There are too many problems in the world that not having won the World Series shouldn't matter a whole lot."

But some of the 700 blacks on the 26,000-student campus said any argument over the series was only a symptom of racism at the school. And some called the appearance by the ballplayers "window-dressing."

"As a black man and a student, I'm concerned about the results of what happened," said Charles Sheffield, 19, of Hempstead, New York. "The problem is that this is being hung on a Mets-Red Sox fight. We will get a report on what exactly happened that night, but will miss the larger picture."

Students criticized university Chancellor Joseph D. Duffey for not doing enough about racial tensions. Duffey has ordered two investigations of the incident. But he has rejected suggestions from students that the school conduct seminars on racism and increase policing on campus, saying such measures would not help.

"We all live in a society with a long tradition of [racial] difficulties," Duffey said.

SCOREBOARD

Hockey

NHL Standings

WALES CONFERENCE

Patrick Division	W	L	T	Pts.	GF	GA
Philadelphia	14	4	2	30	86	45
Pittsburgh	13	6	2	28	86	70
N.Y. Islanders	11	8	1	23	80	65
New Jersey	10	8	2	22	75	89
Washington	7	11	4	18	72	90
NY Rangers	6	11	4	16	82	93
Adams Division						
Montreal	12	6	3	27	79	67
Quebec	10	8	4	24	86	70
Hartford	9	6	3	21	65	63
Boston	8	10	3	19	71	76
Buffalo	4	13	3	11	64	74

CAMPBELL CONFERENCE

Norris Division	W	L	T	Pts.	GF	GA
Toronto	9	7	4	22	68	65
St. Louis	8	7	4	20	66	66
Detroit	8	10	2	18	57	66
Minnesota	6	11	2	14	74	80
Chicago	4	12	5	13	65	91
Smythe Division						
Edmonton	13	8	1	27	97	80
Winnipeg	12	7	1	25	76	63
Calgary	11	10	0	22	73	80
Los Angeles	8	11	2	18	82	89
Vancouver	5	14	2	12	62	84

FRIDAY'S RESULTS

Quebec 1 2 3—6
Buffalo 0 1 0—1
Hunter 2 (7), Gillis (6), Goulet 3 (11); Cyr (2). Shots on goal: Quebec (on Cloutier) 9-6-8—23; Buffalo (on Malarchuk) 11-7-4—22.

Washington 3 0 0—3
Detroit 1 0 2—3
Stevens (3), Carpenter 2 (5); Veitch (2), Ogrodnick (7), Gallant (5). Shots on goal: Washington (on St. Laurent) 10-5-3-4—22; Detroit (on Mason) 10-12-12-1—35.

St. Louis 0 0 0—0
Hartford 1 3 0—4
Gavin (5), Dineen (8), Jarvis (2), Miller (2). Shots on goal: St. Louis (on Liut) 6-7-9—22; Hartford (on Millen) 6-7-8—21.

Los Angeles 0 0 4—4
Winnipeg 0 1 0—1
Sykes (1), Lukowich 2 (5), McKenna (5); Berry (1). Shots on goal: Los Angeles (on Reddick) 5-7-11—23; Winnipeg (on Melanson) 11-8-4—23.

N.Y. Rangers 0 4 4—8
Vancouver 3 2 0—5
McKegney 4 (9), Poddubny (9), Ridley (9), Larouche (7), Greschner (1); Sutter (8), Skriko 4 (12). Shots on goal: N.Y. Rangers (on Brodeur, Young) 10-10-8—28; Vancouver (on Vanbiesbrouck) 14-11-8—33.

SATURDAY'S RESULTS

Buffalo 0 1 0—1
Quebec 1 1 1—3
[illegible]

Basketball

NBA Standings

EASTERN CONFERENCE

Atlantic Division	W	L	Pct.	GB
Boston	8	3	.727	—
Philadelphia	7	5	.583	1½
Washington	5	7	.417	3½
New York	3	10	.231	6
New Jersey	2	10	.167	6½
Central Division				
Atlanta	9	2	.818	—
Chicago	7	3	.700	1½
Milwaukee	9	4	.692	1
Indiana	6	6	.500	3½
Detroit	5	6	.455	4
Cleveland	3	9	.250	6½

WESTERN CONFERENCE

Midwest Division	W	L	Pct.	GB
Houston	6	4	.600	—
Utah	6	4	.600	—
Dallas	7	5	.583	—
Denver	7	5	.583	—
Sacramento	4	7	.364	2½
San Antonio	4	8	.333	3
Pacific Division				
L.A. Lakers	8	1	.889	—
Seattle	6	5	.545	3
Golden State	6	6	.500	3½
Portland	6	6	.500	3½
Phoenix	5	7	.417	4½
L.A. Clippers	3	9	.250	6½

FRIDAY'S RESULTS

Detroit 24 35 30 30—120
Philadelphia 24 30 27 29—110
Dantley 11-20 5-5 27, Thomas 11-17 5-6 27, Johnson 10-17 5-5 25; McCormick 10-14 7-8 27, Cheeks 8-18 4-7 20. Rebounds: Detroit 53 (Laimbeer, Mahorn 14); Philadelphia 43 (Hinson, McCormick 12). Assists: Detroit 32 (Thomas 12); Philadelphia 27 (Cheeks 12).

Golden State 29 27 31 33—120
Boston 32 35 37 31—135
Bird 9-16 10-10 32, McHale 8-13 7-9 23; Floyd 9-13 9-11 30, Mullin 5-12 8-8 19. Rebounds: Golden State 42 (L. Smith 7); Boston 58 (McHale 17). Assists: Golden State 27 (Floyd 11); Boston 31 (Bird 13).

Houston 14 37 17 32—99
Washington 37 23 33 22—115
J. Malone 15-26 8-8 38, M. Malone 7-18 20-23 34; Olajuwon 5-13 7-12 17, Petersen 8-12 0-0 16. Rebounds: Houston 49 (Petersen 9); Washington 61 (M. Malone 13). Assists: Houston 19 (Reid 5); Washington 20 (Williams 5).

New York 26 27 24 22—99
Chicago 28 26 27 20—101
Jordan 14-26 12-15 40, Paxson 10-15 0-0 20; Sparrow 11-17 0-0 22, Wilkins 9-18 3-7 21. Rebounds: New York 46 (Walker 10); Chicago 46 (Corzine, Oakley 7). Assists: New York 24 (Sparrow 10); Chicago 21 (Colter 5).

Dallas 22 24 38 32 14—130
[illegible]

U.S. College Scores

[illegible]

European Soccer

SPANISH FIRST DIVISION

Barcelona 1, Real Sociedad 0
Athletic Bilbao 2, Espanol 1
Valladolid 1, Real Madrid 1
Sevilla 4, Murcia 0
Cadiz 2, Gijon 0
Mallorca 2, Zaragoza 0
Santander 2, Betis 0
Atletico Madrid 1, Osasuna 0
Sabadell 1, Las Palmas 0

Points standings: Barcelona 22; Real Madrid 20; Athletic de Bilbao, Atletico de Madrid 19; Espanol 18; Mallorca 17; Gijon 16; Real Sociedad, Valladolid, Betis 15; Sevilla, Cadiz 14; Zaragoza, Las Palmas 13; Murcia 12; Osasuna 10; Santander, Sabadell 9.

ITALIAN FIRST DIVISION

Brescia 2, Torino 0
Como 1, Inter Milan 1
Fiorentina 2, Roma 1
Juventus 2, Atalanta 0
Milan 2, Avellino 0
Napoli 4, Empoli 0
Udinese 0, Sampdoria 0
Verona 2 Ascoli 1

Points standings: Napoli 16; Juventus 14; Inter Milan 13; Milan, Roma, Como, Verona 12; Sampdoria 10; Torino, Fiorentina, Avellino 9; Brescia, Ascoli, Empoli 6; Atalanta 5; Udinese 0.

ENGLISH FIRST DIVISION

Arsenal 3, Manchester City 0
Charlton 1, Southampton 3
Chelsea 1, Newcastle 3
Coventry 2, Norwich 1
Manchester United 1, Queens Park 0
Nottingham Forest 2, Wimbledon 2
Oxford 2, Tottenham 4
Sheffield Wednesday 1, Luton 0
Watford 5, Leicester 1
West Ham 1, Aston Villa 1
Liverpool 0, Everton 0

Points standings: Arsenal 31; Nottingham Forest 29; Liverpool 28; West Ham 27; Luton, Everton, Coventry, Norwich 26; Sheffield Wednesday, Tottenham 25; Watford 22; Oxford 21; Southampton 20; Wimbledon 19; Queens Park, Aston Villa 18; Manchester United, Charlton 17; Leicester 16; Manchester City, Chelsea 15; Newcastle 14.

WEST GERMAN FIRST DIVISION

Cologne 2, Kaiserslautern 2
Düsseldorf 1, Bor. Mönchengladbach 1
Borussia Dortmund 2, Werder Bremen 1
Schalke 0, Bochum 0
Waldhof-Mannheim 1, Blau-Weis Berlin 1
Stuttgart 4, Frankfurt 1
Hamburg 0, Nuremberg 1
Uerdingen 0, Bayern Munich 0
Homburg 1, Leverkusen 2

Points standings: Leverkusen 22; Bayern Munich 21; Hamburg 20; Stuttgart 19; Kaiserslautern, Werder Bremen 18; Borussia Dortmund 16; Borussia Monchengladbach, Uerdingen, Frankfurt 15; Cologne, Bochum, Schalke 14; Waldhof Mannheim 13; Nuremberg 12; Homburg, Düsseldorf, Blau-Weis Berlin 8.

FRENCH FIRST DIVISION

Nice 1, Racing Club Paris 0
Nantes 1, Metz 0
Rennes 0, St. Etienne 0
Bordeaux 1, Brest 2
Sochaux 2, Auxerre 2
Le Havre 2, Laval 1
Nancy 2, Toulouse 0
Paris-St. Germain 0, Monaco 1
Lens 3, Marseille 0
Toulon 1, Lille 0

Points standings: Bordeaux, Marseille 25; Monaco 22; Toulouse, Nice 21; Auxerre, Lens, Nantes 20; Paris-SG, Brest 19; Metz, Le Havre, Laval, Sochaux 17; Lille, 16; St. Etienne 15; RC Paris 14; Nancy 13; Toulon, Rennes 11.

Tennis

(At New York)

Semifinals

Martina Navratilova (1), U.S., def. Pam Shriver (5), U.S., 6-2, 4-6, 6-4.
Steffi Graf (2), West Germany, def. Helena Sukova (4), Czechoslovakia, 7-6 (7-5), 3-6, 6-1.

(At Johannesburg)

Semifinals

Matt Anger, U.S., def. Johan Kriek, U.S., 7-6, 7-6.
Amos Mansdorf, Israel, def. Eddie Edwards, South Africa, 6-0, 7-5.

Final

Mansdorf def. Anger, 6-3, 3-6, 6-2, 7-5.

Transition

BASEBALL

National League

PITTSBURGH—Announced that Joseph M. O'Toole, vice president for administrative services, will retire in January.

BASKETBALL

National Basketball Association

GOLDEN STATE—Activated Ben McDonald, forward.

WASHINGTON—Signed Michael Adams, guard.

Football

U.S. College Scores

EAST

Alfred 30, Plymouth St. 3
Boston College 56, Holy Cross 26
Boston U. 45, Delaware 35
Brown 45, Columbia 7
Colgate 27, New Hampshire 23
Connecticut 20, Massachusetts 17
Dartmouth 28, Princeton 6
Harvard 24, Yale 17
Ithaca 24, Union 17
Lafayette 28, Lehigh 23
Northeastern 36, Rhode Island 10
Penn 31, Cornell 21
Penn St. 34, Pittsburgh 14
S. Connecticut 13, Cent. Connecticut 0
Syracuse 34, W. Virginia 23
Temple 29, Rutgers 22

SOUTH

Alabama A&M 7, Tennessee St. 6
Appalachian St. 55, N. Carolina A&T 9
Clemson 21, S. Carolina 21
E. Tennessee St. 31, VMI 20
Furman 37, The Citadel 14
LSU 21, Notre Dame 19
Louisiana Tech 23, SW Louisiana 14
Mississippi 24, Mississippi St. 3
New Mexico 20, Memphis St. 13
N. Carolina 42, Duke 35
N. Carolina St. 31, W. Carolina 18
S. Mississippi 31, Louisville 16
Tennessee 28, Kentucky 9
Wake Forest 24, Georgia Tech 21
William & Mary 21, Richmond 14

MIDWEST

Colorado 49, Kansas St. 3
Iowa 30, Minnesota 27
Michigan 26, Ohio St. 24
Michigan St. 23, Wisconsin 13
Missouri 48, Kansas 0
N. Iowa 22, Illinois St. 13
Northwestern 23, Illinois 18
Oklahoma 20, Nebraska 17
Purdue 17, Indiana 15

SOUTHWEST

Arkansas 41, SMU 0
Baylor 18, Texas 13
Oklahoma St. 21, Iowa St. 14
Rice 21, Air Force 17
Texas A&M 74, TCU 10
Texas Tech 34, Houston 7
W. Texas St. 32, Abilene Christian 28

FAR WEST

Arizona 34, Arizona St. 17
Brigham Young 35, Utah 21
California 17, Stanford 11
Fresno St. 14, Utah St. 7
Idaho 21, Boise St. 14
Nev.-Las Vegas 31, Long Beach St. 8
Oregon 49, Oregon St. 28
San Diego St. 35, Hawaii 5
Texas-El Paso 21, Colorado St. 19
UCLA 45, Southern Cal 25
Washington 44, Washington St. 23

College Bowl Schedule

DEC. 13
California Bowl (Fresno, Calif.)
Miami (Ohio) vs. San Jose St.

DEC. 20
Independence Bowl (Shreveport, La.)
Mississippi vs. Texas Tech

DEC. 23
Hall of Fame Bowl (Tampa, Fla.)
Boston College vs. Georgia

DEC. 25
Sun Bowl (El Paso, Texas)
Washington vs. Louisiana St. or Alabama
Blue-Gray Game (Montgomery, Ala.)

DEC. 27
Gator Bowl (Jacksonville, Fla.)
Stanford vs. Clemson
Aloha Bowl (Honolulu)
Arizona vs. North Carolina

DEC. 29
Liberty Bowl (Memphis, Tenn.)
Tennessee vs. Minnesota

DEC. 30
Freedom Bowl (Anaheim, Calif.)
UCLA vs. Air Force or Brigham Young
Holiday Bowl (San Diego)
Iowa vs. Air Force or Brigham Young

DEC. 31
Peach Bowl (Atlanta)
North Carolina State vs. Virginia Tech
Bluebonnet Bowl (Houston)
Colorado vs. Baylor
All-American Bowl (Birmingham, Ala.)
Indiana vs. Florida St.

JAN. 1
Florida Citrus Bowl (Orlando, Fla.)
Southern California vs. Auburn
Cotton Bowl (Dallas)
Ohio St. vs. Texas A&M or Arkansas
Sugar Bowl (New Orleans)
Nebraska vs. Alabama or Louisiana St.
Rose Bowl (Pasadena, Calif.)
Arizona St. vs. Michigan
Orange Bowl (Miami)
Oklahoma vs. Texas A&M or Arkansas

JAN. 2
Sunkist Fiesta Bowl (Tempe, Ariz.)
Miami (Fla.) vs. Penn State

JAN. 10
East-West Shrine Game (San Francisco)
Hula Bowl (Honolulu)

JAN. 17
Senior Bowl (Mobile Ala.)

LANGUAGE

Jefferson's Score: One 'It's,' No Error

By William Safire

WASHINGTON — Thomas Jefferson, who preferred to be remembered on his gravestone as an author, fighter against religious intolerance and educator, not as George Washington's secretary of state or as president of the United States, is being accused of a serious grammatical lapse. I rise to his defense.

At a recent auction at Sotheby's in New York, historians and autograph collectors were able to examine an important and unpublished Jefferson letter on religious intolerance. The former president wrote the letter in 1818 to Mordecai M. Noah, a Jewish diplomat and journalist in New York, who had sent Jefferson a speech he had just delivered.

"I have read it with pleasure and instruction," the Founding Father wrote, "having learnt from it some valuable facts in Jewish history which I did not know before. Your sect by it's sufferings has furnished a remarkable proof of the universal spirit of religious intolerance . . . disclaimed by all while feeble, and practised by all when in power . . ."

Note the *it's*. Did this author of the Declaration of Independence need a copy editor? "I had assumed that the use of *it's* as a possessive was a modern aberration," writes Sidney Green of Ithaca, New York, a charter member of the Nitpickers' League, Colonial Era Troop. "Here is Thomas Jefferson using the word in 1818. Was it right then? Is it wrong now?"

It's is a contraction for *it is*, and is not and should never be confused with the neuter possessive pronoun *its*. The English language has had its fight over this, and clarity won.

The fight started about four centuries ago when some secret prefeminists objected to *his* as the pronoun for an antecedent that was not masculine. Here's how it looked when *his* was the neuter possessive: "Ye are the salt of the earth," wrote the men translating the Bible for King James in 1611 when they came to Matthew 5:13, "but if the salt have lost *his* savour, wherewith shall it be salted?"

His didn't work too well for salt. Up in northwest England, Lancashire people preferred *hit* for a neuter-gender pronoun, and used *his*, *her* and *hit*. A few of the far-out types used *hits*, and soon began dropping the initial H. Down south, around London and Oxford, *its* was the form adopted to fill the need for possessives of things like salt, and Shakespeare may have picked up the habit.

How to spell the new word? Some said to go on the analogy of *his* and *hers* — just add the S and be done with it. Others held that it should be *it's*, because an apostrophe before an S signifies the possessive. Lexicographers flip-flopped. John Florio, in his 1598 "A Worlde of Wordes, or Most Copious and Exact Dictionarie in Italian and English," used *its* without the apostrophe in his translation of the Italian *spontaneamente*: "willingly . . . for *its* owne sake." But in his 1611 revision, "Queen Anna's New World of Words," he changed that to "*it's* owne sake."

By 1818, most lexicographers spelled the neuter possessive pronoun without the apostrophe for one very good reason: It saved *its* from confusion with the contraction for *it is*. But many die-hards, among them the framers of the first American state papers, spelled it the old way, and could not be accused then of being in error.

There must be no *ex post facto* laws of grammar; we cannot condemn the men of the past for the accepted usage of the past. But we learn from this exercise that the language changes in order to improve itself; to be more accurate, people change the language to express more clearly what they mean.

When it's a possessive, it's *its*; when it's a shortening of *it is*, it's *it's*. That's settled; now we're working on unisex pronouns to replace *he/she* and *him/her*. Possibilities include *se* and *herm*, but those look as funny to most of us as *hits* and *it's* looked to the English-speakers of three or four centuries ago.

We cannot, however, let our sloppy founders get away with everything. In the same letter auctioned last month, Jefferson also began sentences without capital letters: "your sect by it's sufferings . . ." When Homer nods, must we all shake our heads? In this case, yes. The man who coined the words *electioneer* and *belittle* was noted for his command of the language, and must be held to the highest possible standards. Sentences begin with capital letters. Let's try it again, Tom: "When in the Course of human events . . ." We still uppercase the first word; these days, though, we try to lowercase the ones in the middle.

DO you know what the 1986 elections were all about? They were about *setting an agenda*.

"The leadership of the Senate would set the agenda," crowed Senator Robert C. Byrd, Democrat of West Virginia, expecting to be the new majority leader. "The White House won't set the agenda."

"From the standpoint of setting the agenda," agreed Senator Robert Dole, Republican of Kansas, soon to be minority leader, "it's a very significant change." He added that he was happy not having "the burden of setting the agenda on a daily basis."

Hearing all this, Senator Joseph R. Biden Jr., Democrat of Delaware, told the cameras, "We're going to have an opportunity to set the agenda," and Senator John Heinz, Republican of Pennsylvania, let it be known that "Democrats will now set the legislative agenda for the next two years."

Agenda-setting appears to be the hottest vogue item in the language of politics. Who started it?

President Jimmy Carter gave the phrase its currency in 1977, when he told a news conference that "we'll set an agenda for trying to resolve" problems with Mexico and Canada. He promptly repeated the phrase — "when I get there and see how we can, as I say, set an agenda for getting them resolved" — and the cliché became part of the journalistic firmament.

What does it mean? "Determine what is important" is one definition; "focus public attention on" is another; "prioritize" is what bureaucrats believe the phrase denotes. Political philosophers treat it as meaning "*take the lead*."

How long can a vogue phrase hang on? Carter — whose "Moral Equivalent of War" (MEOW), taken from William James, has been forgotten and whose misuse of *reticent* for *taciturn* is receding into linguistic history — haunts us still with *set an agenda*. When the new legislative term starts, I intend to put the elimination of this phrase right at the top of my list of things to do.

New York Times Service

Poet James Merrill and the Ouija Board

By Elizabeth Kastor
Washington Post Service

STONINGTON, Connecticut — The rooms of James Merrill's house are small and brightly colored and encrusted with the artifacts of the poet's 60 years. With Wagner's "Siegfried" pouring from the radio, even the air is rich with ornament.

Merrill has won almost every major U.S. literary prize, including the Bollingen, the Pulitzer and two National Book Awards. A slight figure with a puckish face, he pads about his house in down vest, warm socks and a pair of fuzzy, heavy suede sandals.

A man born to wealth (as in Merrill Lynch; his father was the co-founder) and good manners, he has spent a lifetime mastering poetic technique and chronicling the joys of friendship, learning and love, and the pain of loss. His poems are densely erudite, spinning with puns and twisting in witty jumps, yet they crackle with the conversation of friends and details of domestic life.

Beginning with his first book in 1951, Merrill wrote short poems admired for their technical brilliance, what the critic Helen Vendler called their "effortless, jeweled effects." Then, in the 1976 volume "Divine Comedies," he introduced "The Book of Ephraim," a 26-section poem that in 1982 was republished along with two other long poems and a coda as the visionary epic "The Changing Light at Sandover."

"Ephraim" was a turning point in Merrill's work. Like the rest of "Sandover," it was drawn from the transcribed gleanings of years spent over a Ouija board with his companion of 30 years, David Jackson. "We did it after dinner instead of having a guest," Merrill said, then added, smiling, "Of course, we did have a guest, but we didn't have to feed him."

. . . that first night, we asked
Our visitor's name, era, habitat.
EPHRAIM came the answer. A Greek Jew
Born AD 8 at XANTHOS . . .

Joe Tabacco/The Associated Press

Merrill at home in Stonington: "Fed up with that diet of nuts and wheat germ."

Fingers lightly resting on an overturned teacup that rode across the Ouija board, handle pointing to letter after letter and spelling out words at the rate of 500 to 600 an hour, Merrill and Jackson communicated, they say, with Ephraim and then others. Dead friends, W.H. Auden, Wallace Stevens, Homer, a peacock named Mirabell, an angel named Michael emerged through the board, revealing a complex cosmology that encompassed reincarnation, UFOs and nuclear destruction. "We were hooked," Merrill recalled. "We could see something shapely was developing. Our curiosity was somewhat that of an ideal reader — to see how things would come out."

Describing how it came out became "Sandover," which allowed Merrill a freedom of voice and subject matter and length he had never had before. In form and intent, the poem has been compared by critics and by the author to Yeats' "A Vision" and Dante's "The Divine Comedy."

A friend gave Merrill and Jackson their first Ouija board in the 1950s. As newcomers to Stonington who at first knew few locals, they found that the board filled the empty evenings, and the casual entertainment slowly became something more.

"I've always been skeptical," Merrill said. "There have been times when I felt a kind of euphoric credulity and let my skepticism go on hold, but I never wanted the poem to sound as if I totally believed — I never really did. Yeats said the same thing — he said sometimes the visions were so beautiful he believed — the beauty was truth."

Merrill was born in 1926, the only child of Hellen Ingram Merrill and Charles E. Merrill. He spent his first five years in a New York town house that nearly 40 years later would be accidentally blown up by members of the Weather Underground who were building bombs in the basement. (In "18 West 11th Street" he wrote: "In what at least/Seemed anger the Aquarians in the basement/Had been perfecting a device/For making sense to us . . .") He spent the rest of his youth in South Hampton, New York, and, after his parents divorced in 1937, in Palm Beach, Florida, with his mother. At Lawrenceville Academy in New Jersey he discovered poetry, and continued to write at Amherst College while reading Proust and Pope.

When Charles Merrill learned that James wanted to devote himself to writing, he wrote to an Amherst professor asking if his son was "any good." Assured that the younger Merrill was indeed good, Charles supported the decision. James traveled through Europe, then set up in New York.

He has taught at Bard College, Yale, Amherst and the University of Wisconsin, but he says that when teaching he spends all his time "worrying about the classes, grading papers" and not writing poetry. Thanks to the money he inherited, he has never had to depend on teaching or anything else to support himself.

"I spent much of my early years living down the fact that I had money," he said. Now some of the money has been given to the Ingram Merrill Foundation, which distributes small grants to artists, last year totaling about $200,000.

Over the years some have criticized his poetry as elitist, unnecessarily impervious to readers who do not share his erudition. He has also been faulted for eschewing political concerns.

"Everyone is situated in his own or her own little corner of life," Merrill said. "Whatever happens to be in the foreground doesn't mean you don't see what's in the background. I've heard the same criticism leveled at Elizabeth Bishop, but I think she wrote poems about convicts and poor people that are as perceptive or more perceptive than much of what other poets wrote."

For years he almost never referred to politics in his work. Even the gay rights movement left him, at least outwardly, unmoved. "I stood still and the closet disintegrated," he has said. "I don't believe in being the least bit militant about it."

Merrill has said that he expects his readers to have a certain breadth of literary knowledge. "Most poetry written today expects none, and I get rather fed up with that diet of nuts and wheat germ. On the other hand, I don't — how could I? — expect a reader to have picked up exactly the same odds and ends that have stuck in my mind over the last 40 years or so."

But with "Sandover" and some recent short poems, the critic and poet Richard Howard believes, Merrill has "overcome" whatever limits his stylistic perfection and social distance had imposed. The work in "these last, most peculiar books," Howard said, "comes from some kind of genuine wisdom and genuine understanding of human feeling."

Merrill was recently named poet laureate of Connecticut, a title he finds slightly embarrassing. For decades he and Jackson moved between Stonington and Athens, where he also has a house. Ultimately the Greek city got too crowded and polluted, and the getting there and back too difficult, since Jackson does not fly. Now they divide their time between Stonington and Key West, Florida. Merrill spends most of the year in Connecticut, Jackson six months a year in Key West. Jackson writes novels, none of which has been published, and short stories and magazine pieces, which have.

Merrill has published two novels. While he has claimed to see prose "as a mildly nightmarish medium, to which there is no end," a collection of interviews and essays, "Recitative," has just been published. A recently written short play will be performed in New York in December.

"I never wanted my work to be collaborative," he said. "Plays seem to me not a wasted experience, but a slovenly one, with all the would-be producers and actors you have to talk to. I will have finished what I consider to be my work, but the work goes on. But with the Ouija board, of course, you do need someone else."

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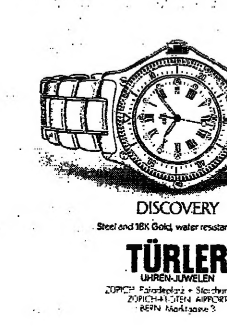

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